NEAR EAST AND NORTH AFRICA

ALGERIA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	48,300	51,400	55,044
Real GDP Growth [3]	5.1	4.0	4.3
GDP by Sector: [2]			
Agriculture	5,756	6,171	5,648
Manufacturing	4,765	5,129	4,626
Construction	4,731	5,028	4,736
Hydrocarbons	10,700	12,042	18,500
Services	11,794	12,707	11,685
Government	9,670	10,323	9,849
Real Per Capita GDP (US$)	1,610	1,620	1,764
Labor Force (millions)	8.10	8.3	8.55
Unemployment Rate (pct)	28.0	29.0	30.0
Fiscal Deficit/GDP (pct)	–3.90	–0.5	7.1
Money and Prices (annual percentage growth):			
Money Supply (M2)	19.0	14.5	15.5
Consumer Price Index	5.0	2.46	1.4
Official [4]	59.5	66.64	75.0
Parallel [5]	70.0	71	88.0
Balance of Payments and Trade:			
Total Exports	10,213	12,522	19,971
Oil/Gas	10,100	12,084	18,832
Exports to United States	1,656	1,861	2,587
Total Imports CIF	9,403	9,164	9,125
Imports from United States	713	770	790
Trade Balance	810	3,358	10,046
Balance with United States	953	1,046	1,797
Current Account Deficit/GDP (pct)	–1.9	4.17	11.00
External Public Debt	30,261	28,960	26,69
Debt Service/GDP (pct)	11.1	11.3	10.25
Gold and Foreign Exchange Reserves	8,300	6,510	10,210
Aid from United States [6]	209	325	550
Aid from All Sources	N/A	N/A	N/A

[1] 2000 data based on: a) data for less than full year from Algeria's Central Bank, Algerian Customs; b) embassy estimates.
[2] GDP at current market price.
[3] Percentage changes calculated in local currency.
[4] Bank of Algeria and embassy estimates.
[5] Embassy estimates.
[6] In thousands of U.S. dollars.

1. General Policy Framework

Algeria offers significant opportunities to U.S. firms looking to export, to invest or to form joint ventures with a long-term perspective. The country is the largest in North Africa and the most populated (31 million people in 2000). Algeria has large proven oil reserves with 36 billion barrels of oil equivalent, Algeria is ranked fifteenth in the world in terms of oil reserves; it is one of the world's largest producers of natural gas; there is the potential for large additional discoveries of oil and gas. The country's hydrocarbon revenues for 2000 will reach approximately $19 billion. U.S. technology and expertise are highly prized as a means to explore and exploit these resources. In addition, as the country embarked in 2000 on a major program to modernize its industry, it is actively seeking U.S. firms as suppliers of equipment, of engineering expertise, of technology and of capital.

Balance of trade between the United States and Algeria

Total Algerian imports in 2000 are expected to reach almost $10 billion. Over the last three years, U.S. exports to Algeria have been steadily increasing ($695 million of U.S. exports to Algeria in 1997; $770 million in 1999). Although the United States is now the third largest exporter to Algeria, the balance of trade between the two countries remains lopsided. The United States is the second largest importer of Algerian goods (mostly hydrocarbons). Algerian exports to the United States reached $1.8 billion in 1999. With the sharp increase in the price of oil, the value of Algerian exports to the United States in 2000 is likely to be much higher.

Largest current and potential markets for U.S. exports

The hydrocarbon sector is the largest market for U.S. exports (mostly oil/gas exploration and recovery equipment). Because Air Algérie, the national airline, has chosen Boeing planes to modernize its fleet, aerospace will be the second largest market for U.S. exports in 2000. As a result of the planned modernization of Algerian industry, there is now a strong potential demand for U.S. goods and services in other sectors, including: engineering, sensors and process control, instrumentation and high technology (in particular telecommunications). There is also much potential for U.S. exporters of agricultural products: Algeria imported some $2.5 billion in foodstuffs in the year 2000 and it is the world's fifth largest importer of wheat. U.S. wheat exports to Algeria are expected to increase by 50 percent in 2000 to reach 750,000 tons. In the future, there will be additional opportunities for U.S. exporters of cereals because of the drought in Algeria and of the reorientation of Algerian agriculture. Less cereal will be planted; Algeria will revert instead to traditional crops such as olives and grapes.

A stabilized economic environment

In 1994, the Algerian government, with support from the IMF, adopted a three-year structural adjustment program of prudent fiscal and monetary policy geared towards macroeconomic stability. The results of this policy have been significant: inflation stood at 20.3 percent in 1996, and it will not exceed 1.5 percent in 2000.

The instruments of monetary policy in Algeria are limited. The Bank of Algeria controls monetary growth primarily via bank lending limits. Interest rates are set weekly by a government board. In 2000, the central bank discount rate stood at 7.5 percent and commercial bank lending rates ranged between 8 and 10 percent.

Financial services and telecommunications: The two main bottlenecks

The lack of a modern financial services sector restricts the growth of the economy. Four private banks recently started operating in Algeria: Citibank, the Arab Banking Corporation and two French banks (Natexis/Banques Populaires and Societé Genérale). The banking sector, largely controlled by the government, is inefficient and overstaffed. Reform of the banking sector has progressed slowly.

Antiquated telecommunications systems are also an impediment to banking reform and more generally to economic growth. However, the ambitious program launched by the government to modernize telecommunications is proceeding.

2. Exchange Rate Policy

Since January 1996, an interbank foreign exchange market has determined the exchange rate of the Algerian currency (the dinar). In 2000, the average exchange rate was 75 dinars to a dollar, up from 66 in 1999. The dinar's depreciation reflects the rise of the dollar against most currencies in 2000.

The dinar is convertible for all current account transactions. Private and public importers may buy foreign exchange from six commercial banks for commercial transactions provided they can pay for hard currency in dinars. Although commercial banks may buy foreign exchange from the Bank of Algeria, they are no longer required to surrender to the Bank of Algeria the foreign exchange they acquire and may trade these resources among themselves. According to the International Monetary Fund (IMF), total foreign exchange reserves are expected to reach $10 billion by the end of 2000, a 61 percent increase over 1999.

3. Structural Policy

While reaffirming its commitment to the continuation of fiscal and monetary discipline, the government launched in 2000 a program of major structural changes.

The objective of this program is to radically transform and modernize the Algerian economy to solve major problems that have been plaguing the country for years.

The most pressing problem is unemployment. It now stands at 30 percent overall and as high as 70 percent for those under 25 (the majority of the population).

Starting in 1996, the government had taken steps to replace what used to be a socialist, centrally planned and managed economy with a more decentralized and flexible one. In 2000, the cost and the failure of the measures adopted so far to modernize the economy convinced the government to disengage itself completely from the ownership and from the running of firms.

In order to transform the Algerian economy into one based upon free market principles, the government announced in 2000 a four-pronged program. With the exception of the energy sector, most firms now owned by the government (the quasi totality of industrial firms with more than 100 employees) will be privatized. They will be sold to their employees, to private Algerian businessmen, to foreign firms, or to partnerships of any or all of the three. All public service sectors currently served by a monopolistic government-owned utility will be deregulated and competition will be encouraged. The first sectors to be so reformed will be telecommunications and the production and distribution of gas and electricity. The energy sector will be reformed through competition and by opening the capital of government-owned firms to private interests (Algerian or foreign). Finally, the banking sector will be entirely restructured through competition and foreign participation in order to improve services and reduce costs.

This program is very ambitious. Given the outcome of past programs, the cooperation of key stakeholders, such as the worker unions and the bureaucracy, will be needed for its success.

Algeria and the WTO; Algeria and the European Union

Algeria is not a member of the World Trade Organization, but there is a movement to restart stalled accession discussions. Algeria has resumed negotiations with the European Union on an association treaty. Such a treaty could be signed as early as 2001. It would, in particular, eliminate custom duties between Algeria and the EU. Algeria, however, is asking for this dismantling of duties to take place over a twelve-year period. Chief among Algeria's concerns is that its firms, being mostly inefficient, could not withstand the competition from European imports if duties were removed.

4. Debt Management Policies

At the end of 2000, total medium and long-term debt is expected to reach $26.96 billion, down from 30.26 billion in 1998. Debt repayment is a priority of the Algerian government and much of the windfall resulting from the high 2000 oil prices will be devoted to it. As a result, the amounts devoted to debt service are expected to decrease by 27 percent between 2000 and 2002.

The debt/GDP ratio was 59.1 percent in 1999; it is expected to decrease to 47.9 percent in 2000 and to 45.5 percent in 2001. By the same token, the share of export earnings spent on debt service payments, 39.6 percent in 1999, should drop to 24.1 percent in 2000.

Thanks to the oil windfall and to prudent fiscal policy Algeria will have a budget surplus of about 8 percent of GDP in 2000.

5. Significant Barriers to U.S. Exports

There are no barriers specifically erected to stem U.S. exports. However, for many years tariffs on imports were high in Algeria and some still are; moreover, while it is a priority of the government, the modernization of Algerian customs has not yet taken place. Algeria's customs administration has simplified import clearance procedures, but the process remains time-consuming and the source of many complaints. Finally, much of Algeria's purchasing overseas is done though international RFPs and tenders. Streamlining these and making them more transparent are stated objectives of the Algerian government.

Nontariff barriers: Algeria has largely deregulated its merchandise trade regime. Import licenses are no longer required. The only imports subject to restrictions are firearms, explosives, narcotics, and pork products, which are prohibited for security or religious reasons. The government insists on specific testing, labeling, or certification requirements being met, however. Algeria is increasingly adopting and requiring compliance with EU quality standards (e.g., International Standards Organization).

The Ministry of Health requires distributors to obtain authorizations to sell imported drugs, which must have been marketed in their country of origin, as well as in a third country, before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, must be labeled in Arabic.

This regulation is enforced. It is helpful to label products in French. Food products when they arrive in Algeria must have at least 80 percent of their shelf life remaining.

Export of services: The government plans to deregulate and to allow private competition in most service sectors. Insurance, banking, air transportation, air courier services have already been deregulated and foreign firms are actively encouraged to participate. (DHL now offers service in several Algerian cities).

Deregulation of the telecommunications and of the power production and distribution sectors are now being planned.

Foreign investment into Algeria: The Algerian government seeks to disengage itself from the ownership of firms. In addition, modernization of Algerian industry has become a top priority. For these reasons, foreign investment, especially by U.S. corporations, is actively sought.

The 1991 Hydrocarbons Sector Law and the 1991 Mining Law, revised in 1999 to permit majority foreign ownership of mining enterprises, govern investments in these two local sectors. Production sharing agreements are routine.

In 1995, an investment code was enacted. Under the code, a new agency, APSI, was created to facilitate investment into Algeria. APSI coordinates all registration formalities for investors; it also puts together packages of incentives available under the investment code: tax relief, lower customs duties, exceptions to labor laws and comply with international oil business norms.

The Algerian government's procurement practices do not adversely affect U.S. exports. Algeria participates officially in the Arab League boycott against Israel, but no U.S. firms have been disadvantaged by Algeria's policy in this regard.

6. Export Subsidies Policies

About 95 percent of Algeria's export revenues are derived from oil and natural gas exports. The government does not provide direct subsidies for hydrocarbon or non-hydrocarbon exports. The government reactivated a non-hydrocarbon exports insurance and guarantee program in 1996, but it has had little effect. Almost all export restrictions have been removed, the exceptions being palm seedlings, sheep, and artifacts of historical and archaeological significance.

7. Protection of U.S. Intellectual Property

Algeria is a member of the Paris Industrial Property Convention and the 1952 Convention on Copyrights. The body of Algerian legislation devoted to the protection of intellectual property is significant. For instance there are both civil and criminal penalties for infringement of copyrights. However, enforcement of this legislation is often lacking. Improving the enforcement of its intellectual property legislation has become a priority of the Algerian government. U.S. firms with a high stake in preventing infringement of their intellectual property are currently working closely with the Algerian authorities to improve the situation.

Patents and trademarks are administered by the Institut Algérien de Normalisation et de Propriété Industrielle; copyrights are administered by the Office National des Droits d'Auteurs. Patents are protected by the law of December 7, 1993; they are granted for 20 years from the date the patent request is filed and are available for all areas of technology. The laws of March 19, 1966 and of July 16, 1976 afford trademark protection.

A 1973 law provides broad copyright protection for books, plays, musical compositions, films, paintings, sculpture, and photographs. The law also grants the author the right to control the commercial exploitation or marketing of the above products. The 1973 law is being amended to include protection for (among other things) videos and radio programs.

8. Worker Rights

Workers in Algeria enjoy considerable rights and do not hesitate to strike when they perceive these rights as threatened. The current privatization program is very respectful of workers rights and much is done to encourage workers to become owners of the firms they work for.

a. *The Right of Association:* In theory, workers may form and be represented by trade unions of their choice. In fact there is essentially one union in Algeria, Union Générale des Travailleurs Algériens (UGTA). It serves as an umbrella organization with local chapters in individual firms and sector chapters. In theory unions may not affiliate with political parties or receive funds from abroad. In fact UGTA, from its inception, has been closely aligned with FLN, the only party in Algeria from 1962 to 1989 and the dominant party until 1997.

b. *The Right to Organize and Bargain Collectively:* A quarter of all Algerian workers are members of UGTA. Union-led strikes have been frequent in the past five years as industry was being reorganized. Such strikes are likely to be at least as frequent in the future as government owned firms are being privatized. Because of the overstaffing of Algerian state-owned enterprises, privatization is likely to result in the elimination of numerous redundancies and workers are worried. While the law prohibits discrimination by employers against union members and organizers, there have been instances of retaliation against strike organizers. A 1990 law permits all unions to engage in collective bargaining. This right has been freely practiced.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor has not been practiced in Algeria and is proscribed by the constitution.

d. *Minimum Age for Employment of Children:* The minimum employment age is 16 years and inspectors can enforce the regulation. In practice, many children work part or full time in small private workshops, in family farms and in informal trade.

e. *Acceptable Conditions of Work:* The 1990 law on work relations defines the overall framework for acceptable conditions of work. The law mandates a 40-hour workweek. Employers pay 24 percent of salaries to the government for their workers' social security, workmen's compensation and unemployment disability insurance. The government has set a guaranteed monthly minimum wage of 8,000 dinars ($107). A decree regulates occupational and health standards. Work practices that are not contrary to the regulations regarding hours, salaries, and other work conditions are left to the discretion of employers in consultation with employees.

f. *Worker Rights in Sectors with U.S. Investment:* Nearly all of the U.S. investment in Algeria is in the hydrocarbon sector. Algerian workers in this sector enjoy
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Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Per Capita GDP (US$) [2]	9,776	9,611	9,781
Labor Force (1,000s)	294	306	318
Unemployment Rate (Govt. figures)	2.4	2.35	2.4
Unemployment Rate (Embassy estimate)	16	17	18
Money and Prices (annual percentage growth):			
Money Supply (M2)	16.6	4.3	6.9
Exchange Rate (US$/BD)	2.65	2.65	2.65
Balance of Payments and Trade:			
Total Exports FOB [3]	3,263	4,070	5,300
Exports to United States	170	241	318
Total Imports CIF	3,554	3,600	3,900
Imports from United States	295	348	332
Trade Balance	–291	470	1,400
Trade Balance with United States [4]	–125	–107	–14
External Public Debt	N/A	N/A	N/A
Current Account Deficit/GDP (pct)	0	0	0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	1,015	1,038	1,129
Aid from United States	0	0	0
Aid from All Other Sources	50.0	50.0	50.0

[1] 2000 figures are all estimates based on data available in October 2000.
[2] Current prices, based on population projections.
[3] Exports include transshipment, which accounts for 14 percent of non-oil exports from Bahrain.
[4] Figures reflect merchandise trade.

Sources: Bahrain Monetary Agency, U.S. Department of Commerce, Embassy estimates.

1. General Policy Framework

Although the Government of Bahrain has controlling interest in many of the island's major industrial establishments, its overall approach to economic policy, especially those policies that affect demand for U.S. exports, can best be described as laissez faire. Except for certain basic foodstuffs and petroleum products, the price of goods in Bahrain is determined by market forces, and the importation and distribution of foreign commodities and manufactured products is carried out by the private sector.

Effective January 1, 2000 the Government of Bahrain abolished import duties on 43 food and feed items, and reduced duties on consumer goods from 10 percent to 7.5 percent. The import duty on tobacco was increased to 100 percent (up from 70 percent) in 2000 in compliance with an earlier GCC health ministers' decision. Tariffs on cars and boats (20 percent) and alcoholic drinks (125 percent) remain in effect. In principle, no tax or duty is payable on imports of raw materials or semi-manufactured goods for manufacture, or imports required for development projects, on transshipments, or on re-exports.

The Bahraini dinar is freely convertible, and there are no restrictions on the remittance of capital or profits. Bahrain does not tax either individual or corporate earnings. The only exception would be for petroleum revenues under a production-sharing agreement.

Over the past three decades, the government has encouraged economic diversification by investing directly in such basic industries as aluminum smelting, petrochemicals, and ship repair, and by creating a secure regulatory framework that has fostered Bahrain's development as a regional financial and commercial center. Despite diversification efforts, the oil and gas sector remains the cornerstone of the economy. Oil and gas revenues constitute approximately 50 percent of governmental revenues, and oil and related products account for about 66 percent of the island's exports. Bahrain's oil production amounts to about 40,000 barrels a day (b/d), and it markets and receives oil revenues from the 140,000 b/d produced from Saudi Arabia's Abu Sa'fa offshore oil field. Gas production amounts to about 1.11 billion cubic feet per day.

The 1999–2000 budget (Bahrain's budgets are prepared biannually) was prepared amid very difficult circumstances because the deterioration in oil prices caused a difficulty in estimating expected oil revenue over the next two years. Government revenues were forecast at $3.0 billion, down 8.6 percent from $3.3 billion in the previous budget. Conversely, government expenditures were projected at $3.9 billion, up 4.5

percent. Oil revenues constitute 49 percent of projected government revenues. The resulting deficit was to be covered by internal borrowing and loans from Arab funds and the Jeddah-based Islamic Development Bank. Sustained high global oil prices since mid-1999, however, significantly boosted government revenues over initial projections. Although the government has not released figures detailing the impact of high oil prices on the national budget, the government is now anticipating a budget surplus at the end of 2000. The 2001–2002 budget, including new assumptions on oil prices, will be published in December 2000.

The Bahrain Monetary Agency (BMA) has limited instruments of monetary policy. Treasury bills are used to regulate dinar liquidity positions of the commercial banks. Liquidity to the banks is provided now through secondary operations in treasury bills, including discounting treasury bills, and sales by banks of bills to the BMA with a simultaneous agreement to repurchase at a later date. Starting in 1985, the BMA imposed a reserve requirement on commercial banks equal to five percent of dinar liabilities. Although the BMA has legal authority to fix interest rates, it has not yet exercised the authority. The BMA has, however, published recommended rates for dinar deposits since 1975. In August 1988, special interest rate ceilings for consumer loans were introduced. In May 1989 the maximum prime rate was abolished, and in February 1990, new guidelines permitting the issuance of dinar certificates of deposit at freely negotiated rates for any maturity from six months to five years were published.

2. Exchange Rate Policies

Since December 1980, Bahrain has maintained a fixed relationship between the dinar and the dollar at the rate of one dollar equals 0.377 BD. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange rate.

3. Structural Policies

As a member of the Gulf Cooperation Council (GCC), Bahrain participates fully in GCC efforts to achieve greater economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Bahrain). In addition to duty-free treatment to imports from other GCC states, Bahrain has adopted GCC food product labeling and automobile standards. Efforts are underway within the GCC to enlarge the scope of cooperation in fields such as product standards and industrial investment coordination. In recent years, the GCC has focused its attention on negotiating a free trade agreement with the European Union.

Bahrain is an active participant in the ongoing U.S.–GCC economic dialogue. In addition, Bahrain signed a Bilateral Investment Treaty (BIT) with the United States in September 1999, the first Gulf state to do so. It was ratified by Bahrain in November 1999 and was pending before the U.S. Senate as of October 2000. The inaugural meeting of the Joint Economic Dialogue (JED) between Bahrain and the United States also took place in September 1999. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. Bahrain still officially participates in the primary Arab League economic boycott against Israel, but does not observe secondary and tertiary boycott policies against third-country firms having economic relationships with Israel.

With the exception of a few basic foodstuffs and petroleum product prices, the government does not attempt to control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices basically depend upon the source of supply, shipping costs, and agents' markups. Commissions are capped at five percent and are due to be phased out by 2003. Since the opening of the Saudi Arabia-Bahrain causeway in 1985, and the 1998 revision in the Agency Law that abolished sole agency requirements, local merchants have been less able to maintain excessive margins and, as a consequence, prices have tended to fall as competition has heated up somewhat.

Bahrain is essentially tax-free. The only corporate income tax in Bahrain potentially would be levied on oil, gas, and petroleum producers, all of which are state-owned at this time. There is no individual income tax, nor does the country have any value-added tax, property tax, production tax or withholding tax. Bahrain has customs duties and a few indirect and excise taxes, which include a tax on gasoline, a 10 percent levy on rents paid by residential tenants, a 12.5 percent tax on office rents, and a 15 percent tax on hotel room rates. Firms with 50 or more employees pay a training levy at the rate of 3 percent of the payroll for expatriates and one percent for Bahrainis.

4. Debt Management Policies

The government follows a policy of strictly limiting its official indebtedness to foreign financial institutions. To date, it has financed its budget deficit through local banks. In April 1998, Bahrain launched its first bond issue, worth approximately $107 million, which was well received. The government has no plans for a second issue at this time. Bahrain has no International Monetary Fund or World Bank programs.

5. Aid

Bahrain receives assistance in the form of project grants from Saudi Arabia, Kuwait, and the United Arab Emirates. On April 1, 1996 Bahrain began receiving 100 percent of the revenue from the 140,000 b/d of oil produced from Saudi Arabia's offshore Abu Sa'fa field. This has proved to be a major source of funding for the government's budget.

6. Significant Barriers to U.S. Exports

Standards: Processed food items imported into Bahrain are subject to strict shelf life and labeling requirements. Pharmaceutical products must be imported directly from a manufacturer that has a research department and must be licensed in at least two other GCC countries, one of which must be Saudi Arabia.

Investment: The government actively promotes foreign investment and permits 100 percent foreign ownership of new industrial enterprises and the establishment of representative offices or branches of foreign companies without local sponsors. Other commercial investments are made in partnership with a Bahraini national controlling 51 percent of the equity. Except for citizens of Kuwait, Saudi Arabia, and the United Arab Emirates, foreign nationals must lease rather than purchase land in Bahrain. There is, however, currently legislation under consideration that would allow all foreigners to own property in Bahrain. The government encourages the employment of local nationals by setting local national employment targets in each sector and by restricting the issuance of expatriate labor permits. Nevertheless, a sizable expatriate labor force continues to work in Bahrain.

Government Procurement Practices: The government makes major purchasing decisions through the tendering process. For major projects, the Ministries of Works and Agriculture, and of Electricity and Water, extend invitations to select prequalified firms. Smaller contracts are handled by individual ministries and departments and are not subject to prequalification.

Customs Procedures: The customs clearance process is used to enforce the primary boycott of Israel, insofar as it is enforced. Goods produced by formerly blacklisted firms may be subjected to minor delays; the secondary and tertiary boycotts are no longer used as the basis for denying customs clearance. The process of removing firms from the blacklist has become routine, upon application by the subject firm. Bahraini customs also protects against the import of pirated goods and enforces the Commercial Agencies Law. Goods manufactured by a firm with a registered agent in Bahrain may be imported by that firm's agents or, if by a third party, upon payment of a commission to the registered agent. This arrangement is being phased out.

7. Export Subsidies Policies

The government provides indirect export subsidies in the form of preferential rates for electricity, water, and natural gas to selected industrial establishments. The government also permits the duty-free importation of raw material inputs for incorporation into products for export and the duty-free importation of equipment and machinery for newly established export industries. The government does not target subsidies to small businesses.

8. Protection of U.S. Intellectual Property

Bahrain was deleted from the U.S. "Special 301" Watch List in 1999, and remained off the list in 2000, in recognition of greatly enhanced IPR protection in Bahrain. The government has made dramatic progress in reducing copyright piracy; patent and trademark protection has always been strong. There continue to be no reports of significant violations of U.S. patents and trademarks in Bahrain. Bahrain signed the Bern Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property in 1996.

9. Worker Rights

a. *The Right of Association:* The partially suspended 1973 constitution recognizes the right of workers to organize, but western-style trade unions do not exist in Bahrain, and the government does not encourage their formation. Article 27 of Bahrain's Constitution states: "Freedom to form associations and trade unions on national bases and for lawful objectives and by peaceful means shall be guaranteed in accordance with the conditions and in the manner prescribed by the law. No person shall be compelled to join or remain in any association or union." In response to labor unrest in the mid-1950s and in 1965 and 1974, the government passed a series of labor regulations that, among other things, allows the formation of elected workers' committees in larger Bahraini companies. Worker representation in Bahrain today is based on a system of Joint Labor-Management Committees (JLCs) established by ministerial decree. There currently are 19 JLCs in Bahrain.

b. *The Right to Organize and Bargain Collectively:* Bahrain's Labor Law neither grants nor denies workers the right to organize and bargain collectively. While JLCs are empowered to discuss labor disputes, organize workers' services, and discuss wages, working conditions, and productivity, the workers have no independent, recognized vehicle for representing their interests on these or other labor-related issues.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in Bahrain. The press often performs an ombudsman function on labor problems, reporting instances in which private sector employers occasionally compelled foreign workers from developing countries to perform work not specified in their contracts. Once a worker has lodged a complaint, the Labor Ministry opens an investigation and takes action.

d. *Minimum Age for Employment of Children:* The minimum age for employment is 14. Juveniles between the ages of 14 and 16 may not be employed in hazardous conditions or at night, and may not work over six hours per day or on a piecework basis. Child labor laws are effectively enforced by Labor Ministry inspectors. Child labor is not believed to be significant outside family-operated businesses.

e. *Acceptable Conditions of Work:* Minimum wage scales, set by government decree, exist for employees and generally afford a decent standard of living for workers and their families. Wages in the private sector are determined on a contract basis. For foreign workers, employers consider benefits such as annual trips home, housing, and education bonuses part of the salary. Bahrain's Labor Law mandates acceptable working conditions for all adult workers, including adequate standards regarding hours of work (maximum 48 hours per week) and occupational safety and health. Complaints brought before the Labor Ministry that cannot be settled through arbitration must, by law, be referred to the Fourth High Court (Labor) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the court and labor laws are generally considered to favor the worker.

f. *Rights in Sectors with U.S. Investment:* The company law does not discriminate at all against foreign-owned companies and is in the process of being liberalized further. Workers at all companies with U.S. investment enjoy the same rights and conditions as other workers in Bahrain.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		–92
Total Manufacturing		–5
Food and Kindred Products	(1)	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	–3	
Wholesale Trade		(2)
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		(2)
Other Industries		–1
TOTAL ALL INDUSTRIES		–92

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/–).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

EGYPT

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	97/98	98/99	99/00 [1]
Income, Production and Employment:			
GDP (Current Prices)	83.8	89.7	94.0
Real GDP Growth (pct) [2]	5.7	6.0	5.0
GDP by Sector:			
Agriculture	17.5	17.4	16.7
Manufacturing	32.2	31.5	33.5
Services	42.3	43.3	42.2
Government	7.8	7.9	7.5
Per Capita GDP (US$)	1,310	1,406	1,430
Labor Force (millions)	17.0	18.3	18.5
Unemployment Rate (pct)	8.9	8.3	7.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	12.3	11.4	8.8
Consumer Price Inflation (period average)	4.0	2.9	2.5
Exchange Rate (LE/US$ annual average)			
Market Rate	3.39	3.396	3.6
Balance of Payments and Trade:			
Total Exports FOB [3]	5.128	4.445	6.388
Exports to United States [3]	0.698	0.660	0.4449 [5]
Total Imports FOB [3]	16.899	16.969	17.861
Imports from United States [3]	3.060	3.000	1.719 [5]
Trade Balance [3]	–11.7	–12.5	–11.7
Balance with United States	–2.361	–2.360	–1.274 [5]
External Public Debt	28.1	28.2	27.8
Fiscal Balance/GDP (pct)	–1.0	–1.3	–4.2
Current Account Balance/GDP (pct)	–3.4	–1.9	–1.2
Debt Service Payments Ratio [4]	13.0	11.0	7.2
Gold and Foreign Exchange Reserves	20.3	18.0	15.1
Aid from United States	2.115	2.075	2.1

[1] Statistics are based on Egypt's fiscal year starting July 1 and ending June 30.
[2] Percentage changes calculated in local currency.
[3] Merchandise trade.
[4] Ratio of external debt service to current account receipts.
[5] Estimates from January to June 2000.

1. General Policy Framework

Egypt, with a population of 67 million and a per capita income of $1,430, is a major developing country. Its productive economy is segmented into the state sector (estimated at 26.9 percent of GDP) and the private sector (with about 73.1 percent of GDP). The Ministry of Finance estimates the informal sector is equivalent to 25 percent of the GDP in 1999. Foreign assistance, including some $2 billion from the United States, has funded a significant portion of Egypt's infrastructure development. Private investment in key infrastructure areas has increased dramatically in the past two years.

Egypt's economic stabilization program started in 1991 and is still ongoing. It has produced measurable growth in several sectors of the economy. The real GDP growth rate has climbed annually, moving from two percent in 1991 to six percent in 1999. Inflation decreased during the same period from 20 to 2.8 percent. Foreign currency reserves have increased and stood at $15.7 billion in 1999. Recently, however, the pace of macroeconomic growth has slowed. The Government of Egypt was forced to revise its budget deficit figures for 1998/99 upward from 1.3 percent to 4.2 percent of GDP. Tariff protection has been reduced with most average favored nation (MFN) duties dropping from a high of 42 percent in 1991 to 27 percent at the start of 2000. Many nontariff barriers have been removed, and Egypt has pledged to implement the new WTO customs valuation procedures in July of 2001. The official unemployment rate is 7.4 percent, but other sources put the figure higher.

Services are the fastest growing sector of the economy, accounting for 32 percent of GDP (including government services). Tourism, the Suez Canal, trade, and banking are the largest service sub-sectors. Egypt is an exporter of petroleum, light manufactures (including textiles), and agricultural products. It imports machinery, refined oil products, and food products. Since 1995 Egypt's exports have remained at around 5 to 6 billion dollars, while imports increased from 13 to 18 billion dollars. In 1999 Egypt's exports to the United States totaled about $600 million, while it imported some $3 billion from the United States.

In 1997 and 1998 Egypt's foreign exchange earnings declined from several key sources (particularly tourism, Suez Canal receipts, worker remittances, and petroleum exports). As a result, Egypt's current account balance went from a small surplus to an almost $3 billion deficit at the end of 1998. In 1999 some of the sources of foreign exchange earnings started to recover with tourist visitor numbers at record levels, Suez Canal receipts stabilizing, and petroleum prices rising. This has brought a corresponding improvement in the current account balance.

The Egyptian government's expenditures were around $26 billion in 1999/00, some 29 percent of GDP, with the fiscal deficit around 4.2 percent of GDP. The deficit was financed through issuance of government securities, borrowing from the pension fund through the National Investment Bank, and foreign assistance. Fiscal revenues are mainly comprised of tax revenue, including income tax receipts and customs tariffs. Egypt has plans to widen the base of the sales tax by including wholesale and retail trade, but implementation has been delayed. Delays in completing tax reform may have wider implications for further reductions in tariffs given the importance of customs revenues in overall government revenue.

The reform-oriented cabinet, appointed by President Mubarak in October 1999, has pledged to continue the pace of reform. The cabinet has taken several measures that would improve Egypt's investment climate. They include a new IPR law that should be submitted to Parliament this year. The Egyptian government recently passed a data protection decree, and approval is pending for the first application made by a U.S. company on an exclusive marketing rights decree approved earlier this year. Up to 20 percent of the Egyptian government's shares in Egypt Telecom are expected to be sold to private investors through the Egypt and London Stock Exchanges, possibly within the next year. Parliamentary elections will take place in October and November 2000.

2. Exchange Rate Policy

Law 38 of 1994 and the executive regulations issued under Ministerial Decree 331 of 1994 regulate foreign exchange operations in Egypt. Responsibility for exchange rate policy lies with the Egyptian government and is administered by the Central Bank of Egypt in consultation with the Ministers of Finance and Economy and Foreign Trade.

As of June 2000, Central Bank foreign exchange reserves stood at $15.1 billion. The Egyptian government notes officially that the free market guides the rates of exchange set by the Central Bank, other approved banks, and dealers. The Central Bank actively monitors the exchange rate in order to assure the Egyptian pound's stability. The exchange rate throughout 1999 averaged 3.39 Egyptian pounds (LE) to $1.00. Strong demand for foreign exchange in mid-2000 caused the dollar exchange rate to rise to a rate of LE 3.7 for $1.00 by October. The Central Bank intervened by putting dollars into the banking system, but it did so with smaller and less frequent infusions than in the past, signaling Egyptian government willingness to allow the pound to float toward a realistic value with reduced government intervention. The rates offered by bureaus of exchange, which account for approximately 6 percent to 10 percent of daily foreign exchange transactions, are as high as 3 percent above the standard commercial rate.

While in principle foreign currency transfers are unrestricted, the business community has reported frequent delays in the processing of requests to convert Egyptian pounds to foreign currency. Exports in recent years may have been affected by the real appreciation of the Egyptian pound vis-a-vis other developing countries' currencies. The Egyptian government may be seeking to make Egyptian exports more attractive by moving less aggressively to prop up the pound.

3. Structural Policies

In general, prices for most products are market based, although the Egyptian government provides direct and indirect subsidies on key consumer goods to benefit Egypt's poor (including bread, which stimulates the demand for U.S. wheat). Pharmaceutical prices are set by the Ministry of Health. Railway fares, electricity, petroleum and natural gas prices are gradually being deregulated to reflect actual costs.

Under its trade liberalization program and in accordance with its WTO obligations, Egypt has made progress in reducing tariffs. In keeping with its WTO commitments, in 1998 Egypt reduced the maximum tariff rate for most imports from a high of 50 percent to 40 percent. Many cases of high tariffs persist, however, such as those affecting the import of automobiles, automobile spare parts and U.S. poultry products. A ban on fabric imports was lifted in 1998, and tariff rates on many categories of textile imports are being reduced in accord with WTO commitments, although tariffs for some areas of textiles remain at high levels. Egypt is in the process of implementing the Harmonized System of product classification, an undertaking it plans to complete in July 2001. Although the government recognizes the need to eliminate non-tariff barriers to trade, businesses report that red tape and cumbersome bureaucracy remain significant problems. This situation should improve with further modernization (e.g., computerization) of the Customs Service and implementation of WTO customs valuation procedures in 2001.

The Egyptian government has adopted a value-added tax (VAT) that is applied for most sales transactions (staple food items are exempted). Other reforms include lowering marginal tax rates, simplifying the tax rate structure, and improving administration of tax policy. Despite such efforts, businesses consistently note the need for reform and modernization of Egypt's tax system, describing its current administration as slow, unpredictable, and lacking in transparency. USAID is currently assisting the Egyptian government to overhaul the tax system, and government expects to present a new sales tax law to Parliament in 2001.

4. Debt Management Policies

In early 1991 official creditors in the Paris Club agreed to reduce by 50 percent the net present value of Egypt's official debt in three tranches of 15, 15 and 20 percent. The IMF conditioned release of the three tranches on successful review of Egypt's reform program. The United States also forgave $6.8 billion of high-interest military debt. As a result, Egypt's total outstanding foreign debt has declined significantly and stands at about $28 billion in 2000. The majority of Egypt's foreign debt is official, concessional, and medium- and long-term. The debt service ratio in 2000 is estimated at 7.2 percent (ratio of external debt service to current account receipts).

In 1996 Egypt and the IMF agreed to an ambitious package of structural reform measures through 1998. The IMF approved a $291 million precautionary stand-by agreement for Egypt. This agreement paved the way for the release of the final $4.2 billion tranche of Paris club relief, reducing Egypt's annual debt servicing burden by $350 million. In September 1998, Egypt declared that it would not sign a third program with the IMF. The relationship with the Fund and the Egyptian government has thus assumed a consultative aspect only.

5. Aid

The United States is Egypt's largest provider of foreign assistance, having committed almost $2 billion in FY 2000. The assistance package is divided into economic support funds ($695 million) and military assistance ($1.3 billion). U.S. economic support assistance levels to Egypt will be gradually reduced over a 10-year period to a level of about $400 million per annum. Both governments are committed to working together to maximize the positive impact assistance has on Egypt's transition to a private-sector-led, export-oriented economy. A significant portion of the funds in both assistance categories is used by Egypt to acquire U.S. goods and services. For example, around $200 million of exports were financed in FY 1999 through USAID's Commodity Import Program. A similar amount is available in FY 2000. An additional $200 million was used to finance technical assistance and services. The Department of Agriculture provided credit guarantees in FY 2000 to support U.S. agricultural exports through GSM 102 ($20 million) and the Export Enhancement Program ($9 million).

6. Significant Barriers to U.S. Exports

Egypt became a member of the World Trade Organization (WTO) in June 1995. Trade should be facilitated by increased transparency and improved notification to the WTO and major trading partners of changes the Egyptian government makes to bring Egypt's trade regime into WTO compliance.

Services Barriers: The Egyptian government controls many service industries. Recent government policies allow private sector involvement in ports, maritime activities, and airports, an opening that has led to significant interest and activity in the private sector. Private firms dominate advertising services. Egypt has modified its laws and regulations in accordance with its WTO financial services commitments.

Banking: Foreign bank branches, including those from a number of U.S. banks, have been permitted to conduct full service retail banking operations since 1993. In 1996 Parliament passed a bill amending the banking law and allowing foreign ownership in joint venture banks to exceed 49 percent, thus encouraging greater competition. In another significant development, Law 155 was passed in 1998. It provided the constitutional basis needed for privatization of the four largest public sector banks. There is no clear timeline for the government's oft-postponed plans to privatize a public sector bank.

Securities: International brokers are permitted to operate in the Egyptian stock market. Several U.S. and European firms have established operations or purchased stakes in brokerage firms. Equity for the sale of state-owned enterprises is raised partly through the Egyptian stock exchange.

Insurance: The passage of a new insurance law in 1998 marked a potentially significant milestone for the sector and the national economy. The law permits foreign insurance companies to own up to 100 percent of Egyptian insurance firms. In 1999 the Egyptian government approved the first application by a U.S. firm for majority ownership. Previously, foreign ownership was restricted to a minority stake. There are five private sector insurance companies, three of which are joint ventures with U.S. firms. The Egyptian government has pressed foreign firms seeking to enter Egypt's non-life insurance markets to do so by purchasing an existing Egyptian insurance firm.

Telecommunications: In October 1999 a new Ministry of Communications and Information Technology was created to manage telecom and IT policy. Telecom Egypt is the nation's fixed-line monopoly. There are many private sector operators in internet and cellular and pay telephone systems. In recent years Egypt's telecommunication infrastructure has undergone extensive modernization with the addition of five million lines. Government plans to sell up to 20 percent of Telecom Egypt before November 2000 have been delayed by unfavorable market conditions. The mobile system has expanded significantly in the last four years as the result of increased GSM capacity. In 1996 a government-owned firm (Arento) was created with an initial GSM capacity of 90,000 lines. The establishment of two private sector companies in 1998 (Mobinil and Misrphone) has boosted the GSM system to one million lines. As of October 2000, the Egyptian government had not signed the WTO Basic Telecommunications or Information Technology agreements.

Maritime and Air Transportation: Maritime transport lines and services operated until recently as government monopolies. Law 22 of 1998 opened these areas to the private sector. This law permits the establishment of specialized ports on a build-own-operate basis. Under the new business environment created by Law 22, the private sector is becoming increasingly involved in container handling. In addition, Egypt Air's monopoly on carrying passengers has been curtailed, and several privately owned airlines now operate regularly scheduled domestic flights and international charter services, although the national carrier remains, by far, the dominant player in the sector. Private firms have also become active in airport construction.

Standards, Testing, Labeling, and Certification: While Egypt has decreased tariffs and bans on the importation of many products, other non-tariff barriers have increased. Many items removed from the ban list were added to a list of commodities requiring inspection for quality control before customs clearance. This list now comprises 131 categories of items including meat, fruits, vegetables, spare parts, construction products, electronic devices, appliances, transformers, household appliances, and many consumer goods. Agricultural commodities have been increasingly subject to quarantine inspection, so much so that some importers have begun arranging inspection visits in the United States to facilitate Egyptian customs clearance. Product specification also can be a barrier to trade. For example, Egyptian Standard Number 1522 of 1991 concerning inspection of imported frozen meat set an unattainable maximum 7 percent content of fat. In September 2000 Egypt imposed a duty of 45 percent on imported milk powder as a provisional safeguard measure to protect local milk producers.

Imported goods must be marked and labeled in Arabic with the brand and type of the product, country of origin, date of production and expiry date, and any special requirements for transportation and handling of the product. An Arabic language catalog must accompany imported tools, machines and equipment. The government mandates that cars imported for commercial purposes must be accompanied by a certificate from the manufacturer stating that they are suited for tropical climates. In addition, according to a 1998 Ministerial Decree, imports of automobiles are restricted to the current model year in any given year. Many of these standards are at odds with WTO agreements prohibiting non-technical barriers to trade. Only bona fide health and safety standards based on scientific evidence are mandatory under WTO; all other standards must be voluntary.

Investment Barriers: The General Authority for Free Zones and Investment (GAFI) has responsibility for regulating foreign investment. The Egyptian government implemented Law 8 of 1997 to facilitate foreign investment by creating a unified and clear package of guarantees and incentives. Egypt and the United States have signed a Bilateral Investment Treaty and an Investment Incentive Agreement which extends political risk insurance (via the Overseas Private Investment Corporation) for American private investment. In addition, the Egyptian government is a signatory to the International Convention for the Settlement of Investment Disputes.

Government Procurement: The Egyptian government passed a government procurement law in 1998 which is intended to increase transparency, assure equal opportunity among bidders, and protect contractor rights. The law mandates that decisions on bids are to be explained in writing, and more weight will be accorded to technical considerations in awarding contracts. The law also requires the immediate return of bid bonds and other guarantees once the tender is awarded. Egypt is not a signatory to the WTO Government Procurement agreement.

Customs Procedures: In 1993 Egypt adopted the Harmonized System of customs classification. Tariff valuation is calculated from the so-called "Egyptian selling price," which is based on the commercial invoice that accompanies a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product (regardless of the supplier) to have a value no lower than that noted on the invoice from the first shipment. As a result of this presumption of increasing prices and the belief that under-invoicing is widely practiced, customs officials routinely and arbitrarily increase invoice values from 10 to 30 percent for customs valuation purposes. Modernization (computerization) of customs operations and implementation of the WTO customs valuation procedures in July 2001, should reduce the time required to clear goods and make the valuation process more efficient and more accurate.

7. Export Subsidies

At present Egypt has no direct export subsidies. Certain exporting industries may benefit from duty exemptions on imported inputs (if released under the temporary release system) or receive rebates on duties paid on imported inputs at the time of export of the final product (if released under the drawback system). Under its commitments to the World Bank, the Egyptian government has increased energy and cotton procurement prices. It has also reduced indirect subsidization of exports by removing many of the privileges previously enjoyed by public sector enterprises (e.g., subsidized inputs, credit facilities, and preferential energy prices and customs rates).

8. Protection of U.S. Intellectual Property

IPR Law: In the spring of 2000 the Egyptian government drafted a new Intellectual Property Rights law. A final draft of the law was released to the public in September and was approved by Cabinet in October. It is anticipated that the law will be submitted to the next session of Parliament for adoption. The law addresses IPR issues in such areas as patents (and includes data protection), trademarks (including industrial designs), and copyrights (with enhanced protection to sound and motion picture recordings and computer software). The Egyptian government has made an effort to make the new law conform with WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements.

Watch List Designation: Due primarily to exclusion of pharmaceutical products from adequate patent protections, the United States Trade Representative placed Egypt on the "Priority Watch List" in 1997. Egypt has remained on the Priority Watch List each year since, including 2000. Two significant IPR regulations, a data exclusivity decree and an exclusive marketing rights decree, have been drafted but had not been implemented by the Egyptian government as of November 2000. These decrees would provide significant new protections to U.S. products in Egypt.

9. Worker Rights

a. *The Right of Association:* Egyptian workers may join trade unions but are not required to do so. A union local or worker's committee can be formed if 50 employees express a desire to organize. Most union members (about 27 percent of the labor force) are employed by state-owned enterprises. There are 23 industrial unions, all required to belong to the Egyptian Trade Union Federation (ETUF), the sole legally recognized labor federation. The ETUF, although semiautonomous, maintains close ties with the governing National Democratic Party. Despite the ETUF leadership assertion that it actively promotes worker interests, it generally avoids public challenges to government policies.

b. *The Right to Organize and Bargain Collectively:* A proposed new labor law provides statutory authorization for collective bargaining and the right to strike, rights which are not now adequately guaranteed. Under the current law, unions may negotiate work contracts with public sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector. Under current circumstances, collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law, leaving few issues open to negotiation. Larger firms in the private sector generally adhere to such government-mandated standards.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is illegal and not practiced.

d. *Minimum Age for Employment of Children:* In 1996 Parliament adopted a new "comprehensive child law" drafted by the National Council for Childhood and Motherhood. The minimum age for employment was raised from 12 to 14 years. Child workers are also required to obtain medical certificates and work permits before they are employed. Nongovernmental organizations estimate that some 1.5 million children below the age of 15 work in Egypt, most in seasonal agricultural activities. The Egyptian government has not conducted a comprehensive survey of child labor since the late 1980s. Egypt is a signatory to International Labor Organization (ILO) Convention 138 addressing child labor and is expected to sign ILO Convention 182 in 2001.

e. *Acceptable Conditions of Work:* The government and public sector minimum wage is approximately $33 per month for a six-day, 42-hour workweek. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. The minimum wage is also legally binding on the private sector, and larger private companies generally observe the requirement and pay bonuses as well. The Ministry of Manpower sets worker health and safety standards, which also apply in the free trade zones, but enforcement and inspection are uneven.

f. *Rights in Sectors with U.S. Investments:* The five worker rights above are applied in goods-producing sectors in which U.S. capital is invested in the same manner as in other sectors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,485
Total Manufacturing		573
Food and Kindred Products	(1)	
Chemicals and Allied Products	91	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	14	
Electric and Electronic Equipment	–2	
Transportation Equipment	(1)	
Other Manufacturing	2	
Wholesale Trade		48
Banking		177
Finance/Insurance/Real Estate		0
Services		–81
Other Industries		11
TOTAL ALL INDUSTRIES		2,213

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

ISRAEL

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	100.7	100.8	107
Real GDP Growth (in percent)	2.2	2.3	5.0
GDP by Sector:			
Agriculture	1.9	1.9	1.8

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
Manufacturing	19.7	19.6	20.9
Construction	7.0	6.0	6.0
Services	41.3	42.9	47.2
Public Sector	33.2	32.7	34.0
Per Capita GDP (US$)	16,870	16,470	17,200
Labor Force (000s)[2]	2,266	2,345	2,500
Unemployment Rate (pct)[2]	8.5	8.9	8.5
Money and Prices (annual percentage growth):			
Money Growth (M2) (pct)[3]	17.5	24.3	17.0
Consumer Inflation (pct)[3]	8.6	1.3	0.9
Exchange Rate (NIS/US$)[2]	3.80	4.14	4.06
Balance of Payments and Trade:			
Total Exports FOB	21.3	23.6	28.3
Exports to United States	8.3	9.2	11.7
Total Imports CIF[4]	27.0	30.6	34.3
Imports from United States[4]	5.4	6.3	6.7
Trade Balance[4]	–5.7	–7.0	–6.0
Balance with United States[4]	2.9	2.9	5.0
External Public Debt (gross)	27.4	27.4	27.9
Fiscal Deficit/GDP (pct)	2.4	2.2	1.0
Current Account Deficit/GDP (pct)	0.9	2.6	1.5
Debt Service/GDP (pct)	4.2	4.1	3.9
Gold and Foreign Exchange Reserves[5]	23.3	22.4	23.5
Aid from United States	3.0	2.9	2.8
Aid from Other Countries	0	0	0

[1] 2000 indicators estimated using partial-year data.
[2] Annual average.
[3] December to December.
[4] Excludes defense imports.
[5] At end of year.

1. General Policy Framework

Israel is an open economy, increasingly competitive internationally in such high technology sectors as telecommunications, software, pharmaceuticals, and biomedical equipment. The economy is expected to grow between 4.5 and 5 percent in 2000, although some economists project a lower figure due to concern about the effects of violence in parts of Israel, the West Bank and Gaza in late 2000.

The inflation-adjusted central government budget deficit for 2000 should drop to 1.5 percent of GDP or lower, well within its 2.5 percent of GDP target this year, on the back of a strong revenue intake and fiscal restraint. The 2001 budget calls for a fiscal deficit target of 1.75 percent of GDP, falling to 1.25 percent of GDP by 2003. However, Israel officially reports only the central government fiscal deficit and not the conventional overall fiscal deficit, which is much higher. Defense spending remains the largest single component of the Israeli budget, but the most rapidly growing portions of the budget have been in the area of social services, such as health care, education, and direct payments to individuals and institutions.

The Bank of Israel has maintained a relatively strict monetary policy over the last two years. The result has been very little inflation. The inflation rate in 2000 is expected to fall below one percent. The inflation rate in 1999 was 1.3 percent, the lowest level in more than 30 years. The Israeli shekel remained strong through most of 2000, although it appeared to weaken later in the year due to political uncertainty. Israel's official inflation target for 2001 is 2.5 to 3.5 percent.

Taxes in Israel remain high, with marginal tax rates (including payments for social security insurance) reaching 60 percent. The government tried, but failed, to push through a far-reaching income tax reform package that would have eliminated most exemptions and lowered marginal rates. The government plans to resubmit a more limited tax reform program by the end of 2000, but passage will be difficult amidst political uncertainty. The government would like to reduce taxes on working income and raise taxes on certain capital gains. The reform, if passed, would also equalize tax treatment of domestic and foreign investments. One positive tax development was the decision, taken in mid-2000, to eliminate or reduce purchase taxes on more than 600 items, including imported products like color televisions, refrigerators, VCRs, dishwashers and cosmetics.

2. Exchange Rate Policy

The shekel floats within a pre-defined target zone against a basket of currencies: the dollar, yen, euro, and pound sterling. As a matter of policy, the Bank of Israel does not intervene in the foreign exchange markets as long as the shekel remains within the target zone, although it is obligated to do so once the limits of the zone are reached.

Israel has ended almost all of its remaining capital controls, except for limits on Israeli institutions' foreign investments. The government decided in 2000 to allow insurance companies to invest up to five percent of their assets overseas for the first time.

3. Structural Policies

Over the past decade, Israel has gradually reduced the degree of government involvement in and control over the economy while increasing the influence of domestic and international competition. Israel signed a Free Trade Agreement with the United States in 1985 and has similar agreements with the EU, the EFTA, Mexico, and other countries. This policy of increasing exposure to international competition has led to a significant restructuring of Israeli industry.

The government is continuing efforts begun several years ago to bring competition and privatization to the telecommunications sector. In September 2000 the government announced rules for permitting competition in the provision of domestic telephone service. The government expects to announce tenders for the sale of wireless broadband frequencies, an additional commercial television station, and another wireless telephone service provider. Early in 2001, it expects to sell off its remaining shares of Bezeq, the primary domestic telephone service provider. Competition already exists in international long distance service. The government's plan to permit competitive broadband internet services has sparked intense rivalry among telephone, cable television, and other telecommunications providers. The government is continuing to revise regulations covering the telecommunications sector. The government sold its remaining shares in Bank Hapoalim in 2000. It is hoping to move ahead in 2001 with plans to sell the state airline, El Al, and the state shipping company, Zim.

The state power company, Israel Electric (IEC), dominates electricity generation and distribution in Israel. Under current law, independent producers can generate up to ten percent of Israel's electricity; another ten percent of Israel's power needs could be met by imports. Both areas could provide opportunities for U.S. companies. Progress towards opening up the electricity market to competition has been very slow.

4. Debt Management Policies

Israel's gross public debt totaled $27.9 billion as of mid-2000. Israel's total gross foreign debt (including both public and private debt) was $60 billion. After netting out foreign assets of $50.3 billion, the country's net debt fell $1.1 billion from the beginning of the year, and stood at $9.7 billion.

5. Aid

U.S. assistance to Israel for fiscal year 2001 includes $1.98 billion in military aid (of which over $1.4 billion was earmarked for procurement from the United States) and economic assistance totaling $840 million. Israel also received various forms of support for military research and development, notably for missile defense.

6. Significant Barriers to U.S. Exports

With the exception of some categories of agricultural products and processed foods, all duties on products from the United States were eliminated under the 1985 United States-Israel Free Trade Area Agreement (FTAA) by January 1, 1995. In late 1996 the United States and Israel agreed on a five-year program of agricultural market liberalization. The agreement covers all agricultural products, and provides for increased access during each year of the agreement via tariff rate quotas (TRQ) and tariff reductions. This agreement will be renegotiated in 2001. In 2000, for the first time, Israel met its commitment to publish TRQs for the following year by October 31.

Israel calculates import value according to the Brussels Definition of Value (BDV), a method that tolerates uplifts of invoice prices. A uniquely Israeli form of protection is called "TAMA." TAMA is a post-duty uplift designed to convert the CIF value plus duty to an equivalent wholesale price for purposes of imposing purchase tax. Coefficients for calculation of the TAMA vary from industry to industry and from product to product. There is no TAMA on food or beverages other than spirits.

In addition, purchase taxes from 25 to 95 percent are applied to many goods. Israel eliminated or reduced purchase taxes on over 600 products in 2000, including consumer electronics, household appliances, building inputs, and office equipment. The purchase taxes on automobiles, fuel and alcoholic beverages were not reduced. Where remaining, purchase taxes apply to both local and foreign products.

Although Israel agreed in 1990 to harmonize standards treatment, either by dropping health and safety standards applied only to imports or making them mandatory for all products, implementation of this promise has been slow. Enforcement of mandatory standards on domestic producers can be spotty, and in some cases (e.g., refrigerators, auto headlights, plywood, and carpets) standards are written so that domestic goods meet requirements more easily than do imports. Israel has agreed to notify the United States of proposed new mandatory standards to be recorded under the WTO.

The Standards Institution of Israel is proposing a bilateral Mutual Recognition Agreement of Laboratory Accreditation with the United States that could result in the acceptance of U.S.-developed test data in Israel. The proposed program would eliminate the need for redundant testing of U.S. products in Israel to ensure compliance with mandatory product requirements. The Israeli cabinet decided in August 1999 that official Israeli standards could incorporate in their entirety more than one foreign standard. The government's delay in developing implementing regulations, however, has caused difficulties for a few U.S. manufacturers.

Israeli policies in high tech sectors are evolving. Recent developments have raised concerns for the United States in the areas of information technology (the right of cable companies to offer internet services) and advertising (proposed Israeli government regulations on advertising on foreign cable TV channels directed at the Israeli market). The U.S. government is closely following these sectors.

The government actively solicits foreign investment, including in the form of joint ventures, and especially in industries based on exports, tourism, and high technology. Foreign firms are accorded national treatment in terms of taxation and labor relations and are eligible for incentives for investments in priority development zones after receiving the approval of the Ministry of Industry and Trade. The incentive program provides grants of up to twenty percent of the amount of capital invested and tax benefits for investments in the development priority regions. There are generally no restrictions on foreign ownership, but a foreign-owned entity must be registered in Israel. Profits, dividends, and rents can generally be repatriated without difficulty through a licensed bank. Over 2000 U.S. companies have subsidiaries or other representation in Israel, according to the Israel-America Chamber of Commerce. Investment in regulated sectors, including banking, insurance, and defense-related industries, requires prior government approval.

Israel has one free trade zone, in the city of Eilat. In addition, there are three free ports: Haifa, Ashdod, and the port of Eilat. Enterprises in these areas may qualify for special tax benefits and are exempt from indirect taxation.

Israel is a member of the WTO. It is a signatory to the Uruguay Round Procurement Code, intended to enable more open and transparent international tendering procedures for a wide range of government entities. However, while some government entities notify the U.S. government of tenders valued at over $50,000, many do not, and the notices that are received frequently carry short deadlines and are often only in Hebrew. Complex technical specifications and kosher certification requirements discourage foreign participation in government tenders for food.

The government frequently seeks offsets (subcontracts to Israeli firms) of up to 35 percent of total contract value for purchases by ministries, state-owned enterprises, and municipal authorities. Failure to enter into or fulfill such industrial cooperation agreements (which may involve investment, co-development, co-production, subcontracting, or purchase from Israeli industry) may disadvantage a foreign company in government awards. Although Israel pledged to relax offset requests on civilian purchases under the FTAA, Israeli law continues to require such offsets.

Israeli law provides for a 15 percent cost preference to domestic suppliers in many public procurement purchases, although the statute recognizes the primacy of Israel's bilateral and multilateral procurement commitments. The cost preference for local suppliers can reach as high as 30 percent for firms located in Israel's priority development areas.

In addition to its WTO multilateral trade commitments and its FTAA with the United States, Israel has free trade agreements with the European Union, Canada, the Czech Republic, Slovakia, Turkey, Hungary, Poland, Slovenia, Mexico, and the EFTA states. It also has a preferential trade agreement with Jordan. Israel's import liberalization program and negotiation of new free trade agreements have diluted U.S. advantages under the bilateral FTAA.

7. Export Subsidy Policies

Israel has eliminated virtually all of its export subsidy programs. It retains a mechanism to extend long-term export credits, but the volumes involved are small, roughly $250 million. Israel has been a member of the WTO/GATT Subsidies Code since 1985.

8. Protection of U.S. Intellectual Property

Israel's legal system provides for protection of IPR, but enforcement of IPR laws is not adequate. The U.S. Trade Representative placed Israel on the "Special 301" Priority Watch List in 2000 due in large part to U.S. concern over continuing illegal copying and sale of video and audio recordings. USTR noted that the government of Israel had taken important steps to improve its IPR record, including the establishment of a special IPR unit in the police and passage of legislation to implement the Trade Related Aspects of Intellectual Property (TRIPS) agreement. Nevertheless, enforcement of IPR laws remains weak and punishments for IPR violations are insufficient. In addition, concerns remain over possible TRIPS deficiencies, such as failure to protect adequately confidential test data and to provide criminal penalties for unauthorized end-user copying of computer software.

Israel passed legislation in December 1999 intended to bring it into compliance with its commitments under the WTO TRIPS Agreement. The Israeli government is also developing amendments to its copyright law that would make it easier for Israeli prosecutors to bring charges against copyright violators, and establish a royalty judge to adjudicate among rival royalty claimants.

Israel is a member of the World Intellectual Property Organization (WIPO), and is a signatory to the Bern Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty. Israel is also a member of the International Center for the Settlement of Investment Disputes (ICSID) and the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards.

In September 2000 a law went into effect that allows the parallel import of pharmaceutical products. Several pharmaceuticals companies have challenged this law in court, but a trial has not yet taken place.

9. Worker Rights

a. *The Right of Association:* Israeli workers may join freely established organizations of their choosing. Most unions belong to the General Federation of Labor (Histadrut) and are independent of the government. Histadrut's membership dropped sharply in the mid-nineties after the federation's links with the nation's largest health care fund were severed. A majority of the workforce remains covered by Histadrut's collective bargaining agreements. Non-Israeli workers, including nonresident Palestinians from the West Bank and Gaza who work legally in Israel, are not members of Israeli trade unions but are entitled to some protection in organized workplaces. The right to strike is exercised often. Unions freely exercise their right to form federations and affiliate internationally.

b. *The Right to Organize and Bargain Collectively:* Israelis fully exercise their legal right to organize and bargain collectively. While there is no law specifically prohibiting antiunion discrimination, the Basic (i.e., quasi-constitutional) Law against discrimination could be cited to contest discrimination based on union membership. There are currently no export processing zones, although the free processing zones authorized since 1994 would limit workers' collective bargaining and minimum wage rights.

c. *Prohibition of Forced or Compulsory Labor:* Israeli law prohibits forced or compulsory labor for both Israeli citizens and noncitizens working in Israel.

d. *Minimum Age for Employment of Children:* Children who have attained the age of 15 and who remain obligated to attend school may not be employed, unless they work as apprentices under the terms of the apprenticeship law. Nonetheless, children who have reached the age of 14 may be employed during official school holidays. The employment of children aged 16 to 18 is limited to ensure adequate time for rest and education. Ministry of Labor inspectors are responsible for enforcing these restrictions, but children's rights advocates contend that enforcement is unsatisfactory, especially in smaller, unorganized workplaces. Illegal employment of children does exist, mainly concentrated in urban light industrial areas.

e. *Acceptable Conditions of Work:* The minimum wage is set by law at 47.5 percent of the average national wage, updated periodically for changes in the average wage and in the consumer price index. Union officials have expressed concern over enforcement of minimum wage regulations, particularly with respect to employers of illegal nonresident workers. Along with union representatives, the Labor Inspection

Service enforces labor, health, and safety standards in the workplace. By law, the maximum hours of work at regular pay are 47 hours per week (eight hours per day and seven hours before the weekly rest). The weekly rest must be at least 36 consecutive hours and include the Sabbath. Palestinians working in Israel are covered by the law and by collective bargaining agreements that cover Israeli workers.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors of the economy in which U.S. companies have invested are the same as described above.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		4
Total Manufacturing		2,168
Food and Kindred Products	78	
Chemicals and Allied Products	14	
Primary and Fabricated Metals	7	
Industrial Machinery and Equipment	14	
Electric and Electronic Equipment	1,534	
Transportation Equipment	6	
Other Manufacturing	514	
Wholesale Trade		130
Banking		0
Finance/Insurance/Real Estate		405
Services		381
Other Industries		111
TOTAL ALL INDUSTRIES		3,199

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

JORDAN

Key Economic Indicators [1]

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Income, Production and Employment:			
Nominal GDP [2]	7,303	7,463	7,828
Real GDP Growth (pct) [3]	1.2	1.6	3.0
GDP by Sector:			
Agriculture	200	160	N/A
Manufacturing	860	881	N/A
Services	1,377	1,422	N/A
Government	1,331	1,372	N/A
Per Capita Nominal GDP (US$) [4]	1,534	1,522	1,546
Labor Force (000s) [5]	1,250	1,290	1,330
Unemployment Rate (pct) [5]	12.7	14.2	14.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	7.6	12.0	8.7
Consumer Price Inflation [6]	3.1	0.6	2.5
Exchange Rate			
Official (JD/US$ annual average)	0.709	0.709	0.709
Balance of Payments and Trade:			
Total Exports FOB [7]	1,802	1,831	1,882
Exports to United States [8]	17.1	31.6	19.3
Total Imports CIF [7]	3,826	3,698	4,103
Imports from United States [8]	353.1	275.6	126.9
Trade Balance [7]	–2,024	–1,867	–2,145
Balance with United States [8]	–336	–244	–107.6
Current Account Deficit/GDP (pct) [9]	–0.3	–5.4	–3.4
External Debt Outstanding [10]	7,062	7,313	6,991

Key Economic Indicators [1]—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Debt Service Payments/GDP (pct) [11] (Commitment Basis)	10.5	10.4	10.0
Debt Service Payments/GDP (pct) [11] (Cash Basis)	6.9	6.7	7.4
Fiscal Deficit/GDP (excluding grants)	–10.4	–7.3	–7.5
Fiscal Deficit/GDP (including grants)	–6.4	–3.6	–2.7
Gold and Foreign Currency Reserves [12]	1,954	2,748	3,421
Official Foreign Currency Reserves [12]	1,169	1,991	2,709
Aid from United States [13]	211	313	479
Aid from All Other Sources [14]	186	230	331

[1] Sources: Central Bank of Jordan's (CBJ) Monthly Bulletin, September 2000; IMF Second Review of EFF Arrangements, July 11, 2000; Ministry of Finance's (MOF) Government Finance Bulletin, July 2000; and Ministry of Labor's Annual Reports. Some statistics for 1998 have been revised. 1999 figures are preliminary as per their sources. FY 2000 estimates are based on the IMF report projections, CBJ and MOF projections, and the pertaining calculations.
[2] FY 2000, based on Nominal GDP growth projection of 4.9 percent (IMF).
[3] Percentage changes calculated in local currency for real GDP at factor cost. Note that data for 1998–1999 has been revised.
[4] FY 2000 estimates of 5.07 million inhabitants and nominal GDP growth rate of 4.9 percent.
[5] Labor Force: Ministry of Labor reports and official government estimates; Unemployment for FY 2000: results of the final round of the Employment and Unemployment Survey conducted by the Department of Statistics (unofficial estimates are almost twice as high).
[6] Percentage change in the Cost of Living Index.
[7] Merchandise trade; exports and imports on customs basis. FY 2000 figures are IMF estimates.
[8] Trade with U.S. based on Department of Commerce statistics. FY 2000 figures are for the first five months of the year only.
[9] Including grants. Figures for 1998, 1999 and projections for 2000 are in surplus.
[10] FY 2000, as at end of June 2000.
[11] FY 2000 debt service estimates by MOF over projected nominal GDP.
[12] End of Period. FY 2000 figures as at end of June.
[13] USAID statistics excluding credit guarantees and GSM grain soft loans, but including soft loan PL 480 (for agricultural commodities). Includes economic and military assistance. FY 1999 and 2000 include Section 416(b) donation of U.S. agricultural commodities.
[14] Foreign grants as reported in the General Government Budget (CBJ, MOF reports), including the Iraqi grant. FY 2000 are MOF estimates.

1. General Policy Framework

With a per capita gross domestic product (GDP) of about $1,550, and a population of five million, Jordan has one of the smallest and poorest economies in the region. Since 1996, Jordan has experienced slow economic growth, declining per capita income, and high levels of unemployment. However, the economy shows signs of picking up and real GDP is expected to grow in 2000 by three to four per cent, somewhat higher than the rate of population growth.

Under the leadership of King Abdullah, Jordan has demonstrated its commitment to economic reform, especially in the areas of privatization and in improving the investment climate. In April 2000 Jordan acceded to the World Trade Organization (WTO), a process that entailed extensive legislative and regulatory reform (customs and phytosanitary regulations, intellectual property protection, the tax regime, laws regulating services, etc.). In October the United States and Jordan signed a Free Trade Agreement (FTA), which will eliminate duties and commercial barriers to bilateral trade originating in the United States and Jordan. The government has privatized the Aqaba Railway and partially privatized the national telecommunications company and the state-owned cement firm, and is in the process of privatizing the national airline.

The government offers significant incentives to foreign businesses wishing to establish operations in Jordan. The United States and Jordan have signed a BeoTjT*1In nomic Zone (SEZ), with low taxes, minimal bureaucracy, and investor-friendly policies.

2. Exchange Rate Policy

The Central Bank of Jordan (CBJ) oversees foreign currency transactions and sets the exchange rate. The dinar-dollar fixed rate was instituted in 1995 and remains at 0.708 (buy) and 0.710 (sell) dinar to the dollar (approximately $1.41 to the dinar). The dinar fluctuates against other currencies according to market forces.

All restrictions pertaining to the inflow and outflow of foreign currency (including gold) were rescinded in 1997. The Jordanian dinar (JD) is fully convertible for all commercial and capital related transactions. Foreign currency is obtainable from licensed banks at the legal market-clearing rate, which is the CBJ's official rate. Although there has been deterioration of the real effective exchange rate since the early 1990s, it is anticipated that the JD will remain pegged to the dollar at an exchange rate of approximately $1.41 to the JD, in light of the Central Bank's commitment to maintaining exchange rate stability.

Moneychangers operate under CBJ supervision and are free to set their own currency exchange rates. Moneychangers, unlike banks, do not pay CBJ commission fees for exchange transactions. This gives them a competitive edge over banks, as they are able to charge lower fees to customers.

Banks do not require CBJ approval for the transfer of funds from either resident or non-resident accounts (including investment-related transfers). Banks, however, ultimately report all foreign currency transactions to the CBJ. Both residents and non-residents may open accounts in either JD or foreign currencies. There are no restrictions on the amount resident account holders may maintain in foreign currency deposits, and there are no limits on the amount of funds residents are permitted to transfer abroad.

The CBJ requires banks to prove nonresident status for their foreign clients' accounts every three years. Foreign clients who cannot prove nonresident status will have their accounts converted to resident foreign currency accounts. Nonresident foreign currency accounts are exempted from all transfer-related commission fees charged by the central bank.

Banks may buy or sell an unlimited amount of foreign currency on a forward basis. Banks are permitted to engage in reverse operations involving the selling of foreign currency in exchange for JD on a forward basis for the purpose of covering the value of imports.

A new Banking Law came into force on August 1, 2000. The new law exempts provisions for non-performing loans from taxes. The banking system remains open to foreign investment. Experts from the World Bank are helping the CBJ draft an e-commerce law that will include e-banking. A number of banks have already started telebanking and e-banking services.

3. Structural Policies

Although enjoying U.S. Generalized System of Preferences (GSP) and Normal Trade Relations benefits, Jordan does not provide reciprocal treatment of goods imported from the United States. The FTA will eliminate tariffs on virtually all trade between the two countries within ten years, but it is still subject to Congressional and Parliamentary approval. Currently, most imports into Jordan are subject to tariffs and duties, while industrial raw materials and capital equipment imported by licensed industrial projects may be exempted. The ceiling on all duties was reduced to 30 percent in March 2000 following Jordan's accession to the WTO. Most additional customs taxes, fees and duties on regular imports have been abolished. However, automobiles and certain luxury goods are still charged additional sales taxes which have also been reduced recently.

The Kingdom's Income Tax Law imposes a 35 percent maximum marginal rate. Taxes on individual incomes vary between 5 percent (for annual incomes less than $3,000) and 30 percent (for annual incomes exceeding $22,500). Corporate taxes are set at 35 percent for banks, brokerage firms and financial institutions and 25 percent for companies engaged in agency activities. Re-invested profits and profits earned on exports are exempt from income tax (the latter will be phased out by 2002).

Current law imposes an across-the-board 13 percent sales tax. However, the sales tax is higher on certain items, such as cigarettes, alcohol and automobiles. The law exempts exports from the sales tax and restricts the Cabinet's ability to impose additional sales taxes except if they were in accordance with WTO regulations. The Council of Ministers lowered the special sales tax on imported automobiles. Almost all types of professional, business and legal services are also subject to the 13 percent sales tax. The government is working to revise the sales tax and expects to introduce a VAT-like sales tax by early 2001.

4. Debt Management Policies

Jordan's outstanding external official debt is approximately $7 billion or 90 percent of GDP (down from 97 percent at the end of 1999). Jordan rescheduled $400 million in debt to Paris Club creditors in 1997, and a further $800 million in 1999, easing repayment pressure. The ratio of debt service to exports of goods and nonfactor services (on a commitment basis) has been decreasing since 1993, dropping from 35.9 percent in 1993 to 22.0 percent in 1999, according to the central bank. More than 25 percent of Jordan's external debt is to multilateral institutions, while its largest bilateral creditors are Japan, France and the United Kingdom.

5. Aid

In FY 2000, USAID's economic assistance program totaled $200 million. In addition, the United States provided $225 million in Foreign Military Financing (FMF), $1.6 million in International Military Education and Training Program (IMET), and $2.6 million in other military funds. Over the past year, the United States has provided 180,000 tons of wheat under the section 416(b) donation program in addition to soft loans of $40 million for wheat purchases (GSM 102 & 103). USAID's economic assistance program for FY 2001 is expected to be approximately $150 million.

6. Significant Barriers to U.S. Exports

Import Licenses: The license regime has been modified in accordance with WTO requirements. Import licenses are generally not required.

Services Barriers: With Jordan's recent accession to the WTO, market-entry barriers will be eased or lifted completely either immediately or over a period of time. Despite a few exceptions (in health, engineering, mining and transportation) foreign suppliers of services will receive Normal Trade Relations or national treatment.

Standards, Testing, Labeling, and Certification: Except for pharmaceuticals, which are handled by the Ministry of Health, the Institute of Standards and Metrology is responsible for most issues related to standards, measures, technical specifications and ISO certification. Imported products must comply with labeling and marking requirements issued by the Standards and Measures Department and relevant government ministries. Different regulations apply to imported foodstuffs, medicines, chemicals and other consumer products. Jordan has committed to review all its mandatory standards' requirements and others to make them compatible with WTO requirements by December 31, 2000. Jordanian importers are responsible for informing foreign suppliers of any applicable labeling and marking requirements.

Investment Barriers: The United States and Jordan signed a Bilateral Investment Treaty in 1997. The current Investment Promotion Law is designed to promote both local and foreign investment and to encourage the formation of joint ventures and multinational enterprises in Jordan. Most important to U.S. business, the law provides equal treatment for foreign and Jordanian investors. Restrictions on foreign investment remain in the following sectors: construction and contracting, trade and commercial services, and mining.

Government Procurement Practices: With few exceptions, the General Supplies Department of the Ministry of Finance makes government purchases. Foreign bidders are permitted to compete directly with local counterparts in international tenders financed by the World Bank. However, local tenders are not directly open to foreign suppliers. By law, foreign companies must submit bids through local mitted to phase out this facility over a period of time. The Jordan Loan Guarantee Corporation offers soft loans to small scale, export-oriented projects in industry, handicrafts and agriculture. The Export and Finance Bank, a public shareholding corporation, provides commercial financing and loan guarantees to Jordanian exporters.

8. Protection of U.S. Intellectual Property

Prior to its accession to the WTO, Jordan passed several new laws to improve protection of intellectual property rights. Patents, copyrights, trademarks, trade secrets, plant varieties and semiconductor chip designs are now protected by TRIPS-consistent laws. Jordan is also a member of the World Intellectual Property Organization, and is a signatory to the Paris Convention for the Protection of Industrial Property and the Bern Convention. Consequently, at the end of 1999, Jordan was taken off the U.S. Trade Representative "Special 301" Watch List for inadequate protection of intellectual property. However, effective enforcement mechanisms and legal procedures have not yet been fully established. As a result, the majority of videos and software sold in the marketplace is pirated.

Software piracy is common in Jordan. However, the new copyright law, in conjunction with improved enforcement efforts, has begun to drive the pirate software market underground. In 1998, Jordan issued a decree requiring government ministries to use licensed software.

Jordan's pharmaceutical industry, which in the past profited greatly from the unlicensed copying of pharmaceuticals, is now required to abide by the TRIPS-consistent patent law that outlaws pirating. This law has already begun to curtail unauthorized copying of pharmaceutical products.

9. Worker Rights

a. *The Right of Association:* Workers in the private sector and some state-owned companies have the right to establish and join unions. More than 30 percent of the Jordanian work force is unionized. Unions represent their membership in dealing with issues such as wages, working conditions and worker layoffs. Seventeen unions make up the General Federation of Jordanian Trade Unions (GFJTU). The GFJTU actively participates in the International Labor Organization.

b. *The Right to Organize and Bargain Collectively:* Unions have, and exercise, the right to bargain collectively. GJFTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, working conditions and health and life insurance. If a union is unable to reach agreement with an employer, the dispute is referred to the Ministry of Labor for arbitration. If the ministry fails to act within two weeks, the union may strike.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor is forbidden by the Jordanian Constitution, except in a state of emergency such as war or natural disaster.

d. *Minimum Age for Employment of Children:* Children under age 16 are not permitted to engage in formal employment. This provision, however, does not protect those children who work in the agricultural and domestic fields or small family businesses. Although the practice of child labor is widespread, Ministry of Labor inspectors have never fined an employer for a child labor violation as prescribed by the labor law.

e. *Acceptable Conditions of Work:* Jordan's workers are protected by a comprehensive labor code, enforced by Ministry of Labor inspectors. A minimum wage of 80 JD per month was decreed in October 1999. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant and movie theater employees, who may work up to 54 hours. Jordan has a Workers Compensation Law and a social security system, which cover companies with more than five employees.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those in other sectors of the Jordanian economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		–1
Total Manufacturing		–11
Food and Kindred Products	–11	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		30

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

KUWAIT

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	25,305	29,612	37,312
GDP Growth (pct) [3]	–15.3	17.0	26.0
GDP by Sector:			
Manufacturing	3,004	3,619	4,559
Services	3,894	3,339	4,205
Government	7,174	7,493	9,440
Petroleum	7,772	11,034	14,925
Per Capita GDP (US$)	11,305	13,023	15,738
Labor Force (000s)	1,252	1,226	1,207
Unemployment Rate (pct)	1.3	1.7	3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	–0.8	1.6	3
Consumer Price Inflation (pct)	0.2	3	3
Exchange Rate (KD/US$ annual average)			
Official	0.305	0.304	0.306
Balance of Payments and Trade:			
Total Exports FOB	9,548	12,233	19,000
Exports to United States [4]	1,674	1,578	2,156
Total Imports CIF	8,610	7,625	7,608
Imports from United States [4]	1,479	909	806
Trade Balance	934	4,608	11,392
Balance with United States [4]	192	669	1,350
Current Account Surplus/GDP (pct)	8.7	17.1	19.2
External Public Debt	0	0	0
Debt Service Payments/GDP (pct)	0	0	0
Fiscal Deficit/GDP (pct) [5]	4.0	23.5	–13.6
Gold and Foreign Exchange Reserves (US$ billions)	3.6	3.7	4.6
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2000 figures are projections based on data through June 2000.

[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2000 Figures are estimates based on data available through July 2000.

1. General Policy Framework

Kuwait is a politically stable constitutional Emirate. The press is largely free and commercial advertising is available. Arabic is the official language but English is widely spoken. Kuwait has a small and relatively open, oil-rich economy which has created an affluent society.

Kuwait still faces several structural problems in its budget: excessive dependence on oil revenue, growing government expenditures due to the need for continued high defense spending, growing social expenditures resulting from high levels of government employment, and provision of heavily subsidized social services and utilities. Primarily because of weak oil revenues during the first half of 1999, Kuwait's budget was projected to be in deficit for the FY 1999/2000. In late 1999 a five-year plan to reduce government employment and subsidies, and to encourage privatization of services, was set forward. However, higher oil prices during the last half of 1999 and through 2000 have significantly alleviated the pressures on Kuwait's budget, reduced the deficit to one percent in 1999 (with projections of a 15.2 percent fiscal surplus in FY 2000) and weakened the impetus for economic restructuring.

Domestic investment is encouraged by provision of low cost land, subsidized utilities and waivers of duties and fees. These are offset by lengthy bureaucratic procedures, and for foreigners, high tax rates and complex procedures to secure work visas. The Kuwait Central Bank uses interest rates as its primary means to control money supply through adjustments to the discount rate and through open market operations of government securities. Kuwait's money supply (M2) in June 2000 was up by 3 percent over the previous 12 months.

2. Exchange Rate Policy

There are no restrictions on current or capital account transactions in Kuwait, beyond the requirement that all foreign exchange purchases be made through a bank or licensed foreign exchange dealer. Equity, loan capital, interest, dividends, profits, royalties, fees and personal savings can all be transferred in or out of Kuwait without hindrance.

The Kuwaiti dinar itself is freely convertible at an exchange rate calculated daily on the basis of a basket of currencies which is weighted to reflect Kuwait's trade and capital flows. Since the dollar represents half of the basket, the Kuwaiti dinar has closely followed the exchange rate fluctuations of the dollar over the past year.

3. Structural Policies

Kuwait's government plays a dominant role in the local economy, which should diminish if moves toward privatization and rationalization of the economy are implemented. Kuwait's economy is heavily regulated, which restricts participation and competition in a number of sectors and strictly controls the roles of foreign capital and expatriate labor. Policies favor Kuwaiti citizens and Kuwaiti-owned companies. Income taxes, for instance, are only levied on foreign corporations and foreign interests in Kuwaiti corporations, at maximum rates of 55 percent of taxable income. Individuals are not subject to income taxes, but the government is considering possible changes to its current income tax structure.

Foreign investment is welcome in Kuwait for minority partnership in select sectors. Foreign nationals, except for the citizens of some GCC countries, are prohibited from having majority ownership in virtually every business other than certain small service-oriented businesses, and may not own property. Kuwait's Parliament in May 2000 passed the Indirect Foreign Investment Law allowing 100 percent foreign ownership of all companies listed in the Kuwait Stock Exchange, with the exception of banks, where foreign firms may own no more than 49 percent.

Government procurement policies specify local products, when available, and prescribe a 10 percent price advantage for local companies on government tenders. There is also a blanket agency requirement for all foreign companies trading in Kuwait to either engage a Kuwaiti agent or establish a Kuwaiti company with majority Kuwaiti ownership and management.

4. Debt Management Policies

Prior to the Gulf War, Kuwait was a significant creditor to the world economy, having amassed a foreign investment portfolio that ranged from $80 to $100 billion. Following liberation, Kuwait made the final payment on its $5.5 billion jumbo reconstruction loan in December 1996. The estimated value of the Kuwait Investment Authority's (KIA) foreign assets, concentrated primarily in the Fund for Future Generations, is now approximately $65 billion, while other government-owned foreign assets are estimated at about $35 billion. The government is authorized by law to borrow up to KD 10 billion ($30.5 billion) or its equivalent in major convertible currencies. As of the end of July 2000, the total outstanding balance of public debt instruments in KD issued by the Central Bank of Kuwait was KD 2.48 billion ($8.26 billion), while Kuwait's official external debt stood at zero.

5. Significant Barriers to U.S. Exports

On July 1, 1992 Kuwait began collecting a four-percent tariff on most imports. This flat rate is applied to the Cost, Insurance and Freight (CIF) value of imported goods. Where imports compete with domestic "infant industries," the Ministry of Commerce and Industry may impose protective tariffs of up to 25 percent. In such cases, tariff reviews and determinations are done on a case by case basis.

There are no customs duties on food, agricultural items and essential consumer goods. Imports of some machinery, most spare parts and all raw materials are exempt from customs duties. Oil companies may apply for tariff exemptions for drilling equipment and certain other machinery, including that for new plants.

Kuwait, like other GCC member states, maintains restrictive standards that impede the marketing of U.S. exports. For example, shelf-life requirements for processed foods are often far shorter than necessary to preserve freshness and result in U.S. goods being noncompetitive with products shipped from countries closer to Kuwait. Standards for many electrical products are based on those of the UK, which restrict access of competitive U.S. products. Standards for medical, telecommunications and computer equipment tend to lag behind technological developments, with the result that government tenders often specify the purchase of obsolete, more costly items. Government procurement policies specify local products when available and prescribe a 10 percent price advantage for local firms in government tenders.

The government views its offset program as a major vehicle for motivating foreign investment in Kuwait. The U.S. government opposes this type of program and has recommended that Kuwait carefully weigh all the potential costs to itself of an offset program. Interested U.S. firms should familiarize themselves with the terms of this program to ensure that the offset program does not become an undue obstacle to their business.

Business with Israel is restricted by application of the direct Arab League Boycott. Although Kuwait announced in June 1993 that it would no longer apply the secondary boycott (of firms that do business with Israel) or the tertiary one (of firms that do business with firms subjected to the secondary boycott), it continues to apply the primary boycott of goods and services produced in Israel. Kuwait has taken steps to revise its commercial documentation to eliminate all direct references to the boycott of Israel. If U.S. firms receive requests for boycott-related information from private Kuwaiti firms or Kuwaiti public officials, they are advised to inform the embassy of the request, report the request as required by law to the U.S. Department of Commerce, and take care to comply with all other requirements of the U.S. antiboycott laws. Kuwait, along with many other Middle East countries, continues to enjoy a waiver of the 1996 "Brown Amendment" requirements. The "Brown Amendment" prohibits defense sales to those countries that have not eliminated all vestiges of the enforcement of the secondary and tertiary boycott of Israel, unless waived by the President.

For perishable imports arriving via air, land or sea, customs clearance is prompt. To complete clearance, the importer presents its import license and quality test certificate. Recurring perishable imports can be cleared and taken to the importer's premises after a sample has been submitted to the rds r,

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food is imported. Farmers receiving government subsidies grow small amounts of local vegetables, which are sold to neighboring countries. However, not enough of these vegetables are grown or sold to make any significant impact on local or foreign agricultural markets. Periodically, Kuwait cracks down on the re-export of subsidized imports such as food and medicine.

7. Protection of U.S. Intellectual Property

Kuwait is a member of the World Trade Organization (WTO) and enacted a copyright law in December 1999. The law requires some further amendments to put it in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement. While the Government of Kuwait has engaged in a number of raids against copyright pirates, no convictions under the law have yet been secured. Kuwait joined the World Intellectual Property Organization (WIPO) in April 1998, but has not yet signed the Bern Convention for the protection of literary and artistic works (copyright) or the Paris Convention for the protection of industrial property (patent and trademark). The U.S. Trade Representative listed Kuwait in 1999 on the "Special 301" Priority Watch List for lack of progress in passing copyright legislation, absence of patent coverage for pharmaceuticals, and Intellectual Property (IP) enforcement problems. Kuwait was downgraded to the Watch List after the passage of the Copyright Law.

Patents: Kuwait's 1961 Patent Law was never implemented and contains a number of deficiencies. The draft patent law being considered by its Parliament represents a significant improvement. While meeting basic requirements of the WTO Accord on Trade Related Aspects of Intellectual Property (TRIPS), questions remain regarding when coverage for pharmaceuticals will begin and how compulsory licensing provisions will be interpreted.

Copyrights: In 1995 the Ministry of Information issued ministerial decrees protecting U.S. and British-copyrighted material. In April 1998 Kuwait's Ministry of Planning issued a decree barring the use of pirated software on government computers. A Copyright Law was passed in late 1999 and went into effect in February 2000. The law is essentially TRIPS-consistent, but there are questions regarding its protection of sound recordings and rental rights (both TRIPS requirements). WIPO is expected to provide Kuwait with assistance on the development of amendments that will cover all TRIPS requirements. Kuwait's Ministry of Information started a program to educate its officials and the Kuwait public on implementation of the new law.

Video piracy, which remains a major concern, is being actively pursued by the Ministry of Information Investigations Unit. Lack of staff and Kuwaiti officials' reluctance to publicize the names and locations where pirated products are seized have been two major obstacles. Uncertain and slow judicial action is also a hurdle. It is hoped that these problems will be addressed as additional government training and public awareness campaigns are implemented.

8. Worker Rights

a. *The Right of Association:* Both Kuwaiti and non-Kuwaiti workers have the right to establish and join unions; latest figures indicate 53,000 workers are union members. The government restricts the free establishment of trade unions; workers may establish only one union in any occupational trade, and unions may establish only one federation. New unions must have at least 100 members, 15 of whom must be Kuwaiti. Expatriate workers, about 80 percent of the labor force, may join unions after five years of residence, but only as nonvoting members. In practice, the Kuwait Trade Union Federation claims that this restriction is not enforced and that foreigners may join unions regardless of their length of stay.

b. *The Right to Organize and Bargain Collectively:* While unions are legally independent organizations, government subsidies provide 90 percent of their budgets, and the government oversees their financial records. This extends to prescription of internal rules and constitutions, including prohibition of involvement in domestic political, religious or sectarian issues. Nevertheless, unions are engaged in a wide range of activities. Unions can be dissolved by court ruling or Amiri decree, although this has never happened; if it did, union assets would revert to the Ministry of Social Affairs and Labor. Only Kuwaiti citizens who are union members have the right within the union to vote and be elected. The law limits the right to strike; all labor disputes must be referred to compulsory arbitration if labor and management cannot reach a solution, and strikers are not guaranteed immunity from state legal or administrative action against them. Foreign workers, regardless of union status, may submit any grievances to the Kuwait Trade Union Federation, which is authorized to investigate their complaints and offer free legal advice.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor "except in the cases specified by law for national emergencies and with just remuneration." Foreign nationals must obtain a Kuwaiti sponsor to obtain a residence permit, and cannot change employment without permission of the original sponsors. Domestic servants, not protected by Kuwait's Labor Law, are vulnerable to abuses of this rule. Sponsors frequently hesitate to grant permission to change employment because of the various expenses they covered to bring the servants into the country, often ranging from $1,500 to $1,800. "Runaway" maids can be treated as criminals under the law for violations of their work and residence permits, especially if they attempt to work for someone else without the required permits. Despite government protections, some sponsors continue to hold their servants' passports as a means of controlling their movement.

d. *Minimum Age for Employment of Children:* Minimum legal age is 18 years for all forms of work, both full and part-time. Employers may obtain permits to employ juveniles between the ages of 14 and 18 in certain trades, for a maximum of six hours per day, on condition that they work no more than four consecutive hours followed by a rest period of at least one hour. Compulsory education laws exist for children between the ages of 6 and 15. Some small businessmen employ their children on a part-time basis, and there have been unconfirmed reports of some South Asian domestic servants under 18 who falsified their age in order to enter Kuwait.

e. *Acceptable Conditions of Work:* In the public sector, the effective minimum monthly wage is approximately $742 for Kuwaiti citizens and $296 for non-Kuwaitis; there is no private sector minimum wage. Labor law sets general conditions of work for both public and private sectors, with the oil industry treated separately. The Civil Service Law, which also pertains to the public sector, limits the standard workweek to 48 hours with one full day of rest per week, and provides for a minimum of 14 workdays of leave per year and a compensation schedule for industrial accidents. The law also provides for employer-provided medical care, periodic medical exams to workers exposed to environmental hazards on the job, and compensation to workers disabled by injury or disease due to job-related causes. Legal protections exist for workers who file complaints about dangerous work situations. Laws establishing work conditions are not always applied uniformly to foreign workers, and foreign laborers frequently face contractual disputes, poor working conditions and, in some cases, physical abuse.

f. *Rights in Sectors with U.S. Investment:* Two significant U.S. investments in Kuwait in the oil industry, one in the partitioned neutral zone shared by Kuwait and Saudi Arabia and the other in Kuwait proper, operate under and in full compliance with the Kuwaiti labor law.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		–66
Food and Kindred Products	0	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	0	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		(1)
Services		20
Other Industries		1
TOTAL ALL INDUSTRIES		163

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

MOROCCO

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	36,179	34,871	34,403
Real GDP Growth (pct) [3]	6.3	–0.7	0.7
GDP by Sector:			
Agriculture	5,911	5,161	4,043
Manufacturing	6,040	6,033	5,908
Services	6,833	6,520	6,305
Government	4,378	5,022	5,037
Per Capita GDP (US$)	1,303	1,235	1,187
Labor Force (urban 000s)	5,137	5,263	5,411
Urban Unemployment Rate (pct)	19.1	22.4	23.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	7.7	10.2	4.8

resolve common barriers to foreign and domestic investment through the U.S.-North Africa Economic Partnership.

Despite these efforts, there is frequent criticism that the government is not moving quickly enough on economic reform. The government bureaucracy is extensive and, despite a recent government reshuffle, considered top-heavy with 33 ministers.

2. Exchange Rate Policies

The Moroccan dirham is convertible for all current transactions (as defined by the International Monetary Fund's Article VIII) as well as for some capital transactions, notably capital repatriation by foreign investors. Commercial banks provide foreign exchange for these transactions upon presentation of documents. Although Moroccan companies may borrow abroad without prior government approval, investment abroad by Moroccan individuals or corporations is subject to approval by the Foreign Exchange Board. For those projects that do not directly benefit Morocco, approval is routinely denied. Private Moroccans continue to face several foreign exchange restrictions, notably against use of international credit cards, thus preventing the growth of international e-commerce in Morocco.

The central bank sets the exchange rate for the dirham against a basket of currencies of its principal trading partners, particularly the French franc and other European currencies. The rate against the basket has remained steady since a nine percent devaluation in May 1990, with changes in the rates of individual currencies reflecting changes in cross rates. Due to higher rates of inflation than its trading partners, Morocco's real effective exchange rate has tended to appreciate at a moderate pace in recent years, reaching 19 percent in 1999. Nevertheless, the government argues consistently against devaluation. The large weight given to European currencies in the basket results in a greater volatility of the dollar than the European currencies against the dirham, increasing the foreign exchange risk of importing from the United States as compared to importing from Europe. The IMF and World Bank have urged the Moroccan government to introduce greater flexibility into its exchange rate regime, to help boost exports and promote growth.

3. Structural Policies

The 1992 Foreign Trade Law committed Morocco to the principles of free trade, reversing the legal presumption of import protection. Quantitative restrictions were replaced with tariffs (both ad valorem and variable) on the importation of politically sensitive items such as flour, sugar, tea and cooking oil.

Interest rate policy has also changed in recent years. In 1994 the government revised the interest rate ceilings on bank loans. The new ceiling is set at a three to four percent markup over the rate received on deposits, including the below-market rates on required deposits. The effect of the change is to lower the interest rate ceilings, although real rates remain high.

Morocco has a three-part tax structure consisting of a value-added tax, a corporate income tax, and an individual income tax. The investment code passed by the parliament in October 1995 reduced corporate and individual income taxes, as well as many import duties. The code also eliminated the value-added tax on certain capital goods and equipment.

4. Debt Management Policies

Morocco's foreign debt burden has declined steadily as a result of active debt management in recent years. Foreign debt fell from 128 percent of GDP in 1985 to about 50 percent of GDP in 2000. Similarly, debt service payments before rescheduling, as a share of goods and services exports, fell from over 58 percent in 1985 to 27.6 percent in 1999. The last Paris Club rescheduling took place in 1992. The government does not foresee the need for further Paris Club rescheduling, although it is pursuing other forms of debt relief with major official creditors. Since 1996, France and Spain have authorized debt-equity swaps covering 20 percent of eligible Paris Club debt. In October 1999 the Paris Club endorsed an increase to 30 percent in the Morocco debt-swap ceiling.

5. Aid

While less than 10 percent of U.S. aid was directed to military assistance in fiscal years 1998 and 2000, military assistance in FY 1999 increased to 25 percent of U.S. aid as a result of $4 million in foreign military financing (FMF). The United States provided $1.5 million in FMF in FY 2000. In FY 2000 the United States provided $40 million in food aid to help combat a serious drought.

6. Significant Barriers to U.S. Exports

Import Licenses: Morocco has eliminated import-licensing requirements on a number of items in recent years. Licensing requirements remain for firearms, used clothing, used tires and explosives.

Tariffs: Tariffs have been gradually reduced in recent years. The maximum tariff for most goods is 35 percent, although the range of tariffs is 2.5 to 300 percent, with cereals facing the highest tariffs. Despite the downward trend, tariffs on some products have increased as quantitative restrictions were replaced with higher tariffs. For example, following the elimination of licensing requirements, tariffs on dairy products, cereals, vegetable oils and sugar have increased. There is also a 10 to 15 percent surtax on imports of most goods as well as a value-added tax of up to 20 percent. The Morocco-EU Association Agreement, which went into effect on March 1, 2000, will gradually eliminate tariffs on most industrial products imported from the European Union by 2012.

Services Barriers: Barriers in the services sector have fallen as Morocco conforms to its WTO requirements. In November 1989 Parliament abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating a barrier to U.S. investment in Morocco. In 1993 the Moroccan government repealed a 1974 decree limiting foreign ownership in the petroleum refining and distribution sector, which allowed Mobil Oil to buy back the 50 percent government-owned share of Mobil's Moroccan subsidiary in 1994. Currently, the government is considering a draft law that would place caps on foreign investments in the insurance sector.

Standards, Testing, Labeling and Certification: Morocco applies approximately 500 industrial standards based on international norms, primarily for packaging, metallurgy and construction. Sanitary regulations apply to virtually all food imports. Meat should be slaughtered according to Islamic law. The government does not require locally registered firms to apply ISO 9000 usage. The use of the metric system is mandatory.

Investment Barriers: The government encourages foreign investment. The Parliament passed a new investment code in 1995 which applies equally to foreign and Moroccan investors, except for the foreign exchange provisions which favor foreign investors. Unlike the previous sectoral investment codes, the advantages offered under the new code are to be granted automatically. There are no foreign investor performance requirements, although the new code provides income tax breaks for investments in certain regions, and in crafts and export industries. Foreign investment is prohibited in certain sectors of the economy, including the purchase of agricultural land and investment in the phosphate sector.

Government Procurement Practices: While government procurement regulations allow preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. The Moroccan government has placed an increasing emphasis on transparency. Virtually all of the government procurement contracts that interest U.S. companies are large projects for which the competition is non-Moroccan (mainly European) companies. Many of these projects are financed by multilateral development banks, which impose their own nondiscriminatory procurement regulations.

Customs Procedures: In principle, customs procedures are simple and straightforward, but in practice they have been marked by delays. The Customs Administration has launched a successful program to speed up the customs clearance process. Average processing time has fallen from several days to several hours. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

7. Export Subsidies Policies

There are no direct export subsidies, although the 1995 investment code provides a five-year corporate income tax holiday for export industries. In addition, importing inputs for export industries receive a temporary admission scheme that includes the suspension of duties and licensing requirements. This scheme includes indirect exporters (local suppliers to exporters). Finally, a "prior export" program exists, whereby exporters can claim a refund on duties paid on imports that were subsequently transformed and exported.

8. Protection of U.S. Intellectual Property

Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property, but lacks strong enforcement. Morocco is not on the Special 301 Watch List or Priority Watch List, but is a member of the World Trade Organization (WTO) and in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement. Morocco belongs to the World Intellectual Property Organization, the Bern Convention for the protection of literary and artistic works (copyright), the Universal Copyright Convention, the Paris Convention for the protection of industrial property (patent and trademark), the Brussels Satellite Convention, and the Madrid Agreement Concerning the International Registration of Marks (as revised at Nice, 1957).

Copyright and Patents: The Moroccan Parliament recently passed legislation that increases protection for computer software. Morocco's new commercial courts recently ruled in Microsoft's favor in two cases against software piracy. Requests for patent protection are filed with the Moroccan National Industrial Property Office in Casablanca.

Trademarks: Trademarks are filed in Casablanca. Counterfeiting of clothing, luggage, and other consumer goods is illegal but not uncommon, primarily for local sales rather than export.

9. Worker Rights

a. *The Right of Association:* Workers are free to form and join unions throughout the country. The right is exercised widely but not universally. About six percent of Morocco's nine million workers are unionized, mostly in the public sector. The unions are not completely free from government interference. Narrowly focused strikes continue to occur. Work stoppages are normally intended to advertise grievances and last 48–72 hours. Unions maintain ties to international trade secretariats.

b. *The Right to Organize and Bargain Collectively:* The protection of the right to organize and bargain collectively is implied in the Constitution and Labor Law. The government protections are generally enforced more in larger companies and in the public sector, and are rather unlikely in the informal sector. While the laws governing collective bargaining are inadequate, collective bargaining has been a longstanding tradition in some parts of the economy, notably heavy industry, and is becoming more prevalent in the service sector.

There is no law specifically prohibiting anti-union discrimination. Employers dismiss workers for union activities regarded as threatening to employer interest. Although the courts have the authority to reinstate such workers, they are unable to enforce rulings that compel employers to pay damages and back pay.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in Morocco.

d. *Minimum Age for Employment of Children:* The law prohibits the employment of any child under 14 years of age. Special regulations cover the employment of children between the ages of 14 and 16. In practice, however, children are often apprenticed before age 12, particularly in the informal handicraft industry. The use of minors is common in this informal sector of the economy, which includes rug making, ceramics, woodworking, metalworking and leather goods. Children are also employed informally as domestics and usually receive little remuneration. Child labor laws are generally well observed in the industrialized, unionized sector of the economy but not in the informal sector. In September 1998 the Government of Morocco adopted the International Labor Organization's Convention 138 on the prohibition of child labor.

e. *Acceptable Conditions of Work:* The minimum wage is about $180 a month, a level above per capita income. It is not enforced effectively in the informal sector of the economy, however. It is adhered to fairly well in the industrialized, unionized sectors, where most workers are also generally paid between 13 and 16 months salary, including bonuses, each year.

The law provides for a 48-hour maximum workweek with no more than 10 hours any single day, premium pay for overtime, paid public and annual holidays, and minimum conditions for health and safety, including the prohibition of night work for women and minors. As with other regulations and laws, these are not universally observed in the informal sector.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment, all of which is in the formal, industrial sector of the Moroccan economy, do not differ from those described above.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount
Petroleum	18
Total Manufacturing	49

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount	
Food and Kindred Products	34	
Chemicals and Allied Products	13	
Primary and Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	1	
Other Manufacturing	–1	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		34

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

OMAN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999 [1]	2000 [2]
Income, Production and Employment:			
Nominal GDP	14.2	15.6	18.8
Real GDP Growth (pct)	–10.6	14.4	20.5
GDP by Sector:			
Agriculture and Fisheries	0.4	0.4	0.5
Petroleum	4.4	6.0	9.1
Manufacturing	0.7	0.7	0.8
Services [3]	6.5	6.4	6.7
(total services less public services sector)			
Government Services [3]	1.7	1.8	1.7
Per Capita GDP (US$)	6,192	6,714	8,174
Labor Force (000s)	634.8	633.6	643.7
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2 Jan–Dec) [4]	4.8	6.4	0.1
Consumer Price Inflation [5]	–0.8	–0.7	–0.8
Exchange Rate (Omani riyal/US$)	2.6	2.6	2.6
Balance of Payments and Trade: [6]			
Total Exports FOB	5.5	7.2	10.31
Exports to United States (US$ millions) [7]	230.4	230.5	260.9
Total Imports CIF	5.8	4.7	4.9
Imports from United States (US$ millions) [7]	302.7	187.9	203.8
Trade Balance	–0.3	2.6	5.4
Balance with United States (US$ millions)	–72.2	213.3	–57.12
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct) [8]	6.9	7.0	3.5
Current Account Deficit/GDP (pct) [9]	20.3	1	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves [10]	2.0	2.8	4.59
Aid from United States (US$ millions) [11]	0.2	0.2	0.2
Aid from Other Sources	N/A	N/A	N/A

[1] All 1999 GDP data is provisional.
[2] 2000 estimates are annualized based on January-June data from the Central Bank of Oman and the August 31, 2000 Ministry of National Economy statistical bulletin unless otherwise indicated.

[3] Health and Education are included in services, although most government-provided services shown are current (not capital) expenditures for public administration and defense.
[4] 2000 money supply data is based on January through June 2000. Source: Central Bank of Oman.
[5] Muscat Governorate CPI. CPI figure for 2000 is the average for the period from January through July 2000.
[6] The trade balance with the United States does not include Omani oil purchased by the United States on the spot market. Trade data does not necessarily include all U.S. exports subsequently re-exported to Oman from Dubai, United Arab Emirates, the primary entry point for most U.S. goods to the southern Arabian Peninsula.
[7] 2000 trade data is annualized using January-May 2000 figures from the U.S. Department of Commerce. 1998–1999 trade data is from the U.S. Department of Commerce, which has lower figures for U.S. exports to Oman than Omani customs data, presumably due to the large numbers of U.S. products re-exported to Oman from the United Arab Emirates.
[8] Fiscal deficit as a percentage of GDP was annualized using the July 31, 2000 figures.
[9] Current account deficit for 2000 is not available.
[10] Data represent Central Bank assets. 2000 data is June 30, 2000 balance. The State General Reserve Fund does not publish its holdings.
[11] Funding for International Military Education and Training (IMET) program.

Sources: Central Bank of Oman, Ministry of National Economy Publications. Bilateral trade data is from U.S. Department of Commerce.

1. General Policy Framework

The Sultanate of Oman is a nation of 2.3 million people (including as many as 600,000 expatriates) living in the arid mountains and desert plains of the southeastern Arabian Peninsula. Oman's nominal GDP in 1999 was $15.6 billion, an increase of 10.4 percent from 1998. Oman is a small oil producer and ranks 18th in the world for overall oil production. In 1998 Oman cut oil production to about 820,000 barrels per day in line with OPEC production cuts, although Oman is not a member of OPEC. This was in response to declining oil prices in 1998, which resulted in a 29 percent drop in Omani oil revenue that year. In 1999 average daily oil production increased to around 900,000 barrels per day, where it remains today. Oil revenue accounted for 68 percent of government revenues in 1999 and 67 percent in the first 6 months of 2000. Oman's estimated per capita GDP increased from $6,192 in 1998 to $8,174 in 2000 due to the increase in world oil prices. Preliminary figures released by the Ministry of National Economy indicate a 33.6 percent GDP growth during the first half of 2000. A continuing trend of high oil prices will likely maintain high GDP growth in 2000 and bring about a corresponding increase in per capita income. Oil revenues increased by 67.1 percent during the period January through July 2000 compared to the same period in 1999. Preliminary 2000 figures also indicate an increase in total exports of about 83.7 percent mainly due to higher oil prices and a six-percent increase in imports during the first six months of 2000. These figures indicate that Oman should end the year 2000 with a trade surplus of approximately $2.6 billion.

Oman formally acceded to the WTO on October 10, 2000.

A significant proportion of Oman's rural population lives near the poverty line. The annual population growth is over 3.5 percent, one of the highest in the region. This presents an ever-increasing demand on infrastructure. It is estimated that 37 percent of the Omani population is under the age of 15, and 66 percent of the population is under the age of 30. Job creation and "Omanization," i.e., transfer of expatriate jobs to Omanis, are major government priorities.

The Omani government links developmental priorities and budgetary plans in five-year planning cycles. Oman's Fifth Five Year Plan, 1996–2000, laid out a program designed to shift economic development from governmental to private initiative; diversify the national economy from dependence on crude oil revenue, primarily through future natural gas sales and light industry; and educate a productive national work force for private employment. Aiming at a zero deficit by the year 2000, stringent annual budgets were planned on the basis of revenue of $14.50 per barrel of petroleum. However, the sharp drop in oil prices in 1998 and early 1999 left Oman with a budget deficit of nearly $975 million in 1998, or approximately 6.9 percent of GDP. This trend continued in 1999, when Oman's budget deficit reached $1.1 billion, or approximately 7 percent of GDP even with higher oil prices. The increase in oil prices in the current year is expected to positively affect the fiscal deficit at the end of 2000. Annualizing the figures published so far this year by the Ministry of National Economy, we expect the fiscal deficit to come down to 3.5 percent of GDP. However, this considerably overstates the actual deficit by ignoring the Strategic Reserve Fund, which is "off the books."

There is no personal income tax in Oman, and with the exception of modest fees for medical visits, Omanis continue to enjoy free medical care and free education, including vocational school, and post-secondary and higher education (for a few, selected through examinations). With oil prices around $25 a barrel at the end of 1999, the 2000 State General Budget increased expenditures by about 13 percent (compared to the 1999 budget) with expenditure increases mainly in the civil ministries affecting spending on such services as health, education, and electricity. The

Omani government also took measures to increase non-oil revenue in 1999 by increasing customs duties to 15 percent on a wide range of goods including automobiles, and increasing the corporate income tax from 7.5 to 12 percent. However, this action negatively affected the Omani economy and in December 1999 Sultan Qaboos issued a royal decree eliminating the increased customs duties effective January 1, 2000.

Preliminary figures issued by the Ministry of National Economy for the first seven months of 2000 revealed a fiscal deficit of around $373 million. Among major public expenditure categories in 1999, defense and security accounted for 38 percent of current expenditures (military capital expenditures are not published). Current and capital expenditures for the national oil company Petroleum Development Oman (PDO) accounted for 11 percent of total public expenditures. This trend continued in 2000, as defense and security current expenditures accounted for 36 percent and PDO current and capital expenditure accounted for 13 percent of total public expenditures through the end of July 2000.

The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments the bank uses are reserve requirements, loan to deposit ratios, treasury bills, rediscount policies, currency swaps and interest rate ceilings on deposits and loans. Such tools are used to regulate the commercial banks, provide foreign exchange, and raise revenue, not as a means to control the money supply. The large amounts of money repatriated from Oman by foreign workers and by foreign companies in Oman contributes to current account deficits. Outward workers' remittances decreased by 3 percent in 1998 to $1.4 billion, or 11 percent of GDP. In 1999 outward workers' remittances remained nearly $1.4 billion, but decreased as a percentage of GDP to around 9 percent.

2. Exchange Rate Policies

The Omani riyal has been pegged to the dollar since 1973. Since a 10.2 percent devaluation in 1986, it has remained steady at about $2.60 to 1 Omani riyal.

3. Structural Policies

Oman operates a free market economy, but the government is at present the most important economic actor, both as an employer and as a purchaser of goods and services. Contracts for goods and services for the government, including the two largest purchasers, Petroleum Development Oman and the Defense Ministry, are done on the basis of tenders overseen by a Tender Board. Oman promotes private investment through a variety of soft loans (currently through the Ministry of Commerce and Industry and, for projects under $668,000, the Oman Development Bank, which was reorganized in 1997), tax incentives, modest procurement preferences, and subsidies, mostly to industrial and agricultural ventures. The government grants five-year tax holidays to newly established industries or expansion projects; a one-time renewal is possible. Oman has fairly rigorous health, safety, and environmental standards, and is attempting to upgrade its enforcement capabilities.

Oman recently revised its corporate tax structure in August 2000 to increase its non-oil revenue and make it easier for foreign-owned joint ventures to benefit from the national tax rate. A 12 percent maximum rate of corporate income tax is now applicable to wholly Omani-owned firms and companies with no more than 70 percent direct foreign ownership. A graduated system of taxes, with a ceiling of 30 percent, applies to Omani/foreign joint ventures if direct foreign ownership in the company exceeds 70 percent. However, the tax rate for foreign petroleum companies is set in concession agreements. Import duty is about five percent. There are no personal income taxes or property taxes. Employers pay seven percent of a foreign worker's basic salary to a vocational training fund for Omanis, and eight percent of an Omani's basic salary to a social security fund. The government imposes substantial fees for labor cards, and companies are liable for fines if they do not reach government-specified levels of "Omanization" by the end of target deadlines.

The Omani government continues to emphasize privatization of the telecommunications, power, and transport sectors as a national priority. In 1996 Oman became the first Gulf nation to turn exclusively to the private sector to finance, build, and operate a power plant, a 90 MW plant in Manah. Title for the Manah plant will revert to the government after 20 years. The project was expanded earlier this year to reach 270 MW. In 1999 the government awarded a tender for a 200 MW power plant in Salalah to the U.S. firm PSE&G. Recently, the government awarded its third private power project in the Sharqia region and it is expected to award the fourth and last power/desalination project soon. In 1999 the government also selected international financial advisors for planned privatizations in the telecommunications and aviation sectors. The government has been involved in a number of joint ventures with private sector firms in major infrastructure projects. November 1998 saw the opening of a world-class container transshipment port at Salalah, owned and operated by Salalah Port Services (SPS), a joint venture between the Omani government, Sea-Land (U.S.), Maersk Lines (Denmark), and Omani investors. In mid-1999 Maersk purchased many of Sea-Land's overseas operations, including Sea-Land's participation in the Salalah Port project. The container port, already one of the 20 largest ports in the world, is in close proximity to major East-West shipping lanes and is expected to spur industrial growth in the Salalah area. In September 2000 the government signed a Memorandum of Understanding with Salalah Port Services to establish an Industrial Free Trade Zone at Salalah Port, under the management of Salalah Port Services and Texas-based Hillwood Strategic Services.

Oman Liquefied Natural Gas (OLNG), which completed a $2 billion LNG plant at Sur in a joint venture between the Omani government, Royal Dutch Shell, Total, and Korea Gas, began deliveries of it LNG in May 2000. The entire 6.6 million ton/year LNG output of OLNG has been sold in long term contracts to Korea, India (to an affiliate owned by the U.S. firm Enron), and Japan. Financing on the downstream plant is on a limited recourse basis, with upstream facilities and a 360-km pipeline financed through the corporate developers, principally Royal Dutch Shell. The proposed Sur fertilizer plant, a joint venture between the Omani government and Indian State investors, was finally approved by the Indian government in June 2000. However, the final details are still being negotiated by the two governments. The government is also planning gas-driven projects in the northern Omani port city of Sohar, including a $3 billion aluminum smelter complex (still seeking technical partners). However, government plans for a $900 million polyethylene plant in Sohar have stalled as the original joint-venture partner, BP/Amoco, withdrew from the project in 1999. In late 1999 construction began on a $250 million industrial port in Sohar, which is expected to be completed by 2002. Other initiatives aim to develop the infrastructure of Oman's interior in order to provide services and employment for Oman's growing population, estimated to be increasing at around 3.5 percent annually. Industrial parks have been set up throughout the country to provide investors with subsidized sites and services ready for light manufacturing plants. Recently, the Omani government concluded contracts for building gas pipelines to Sohar and Salalah.

4. Debt Management Policies

Oman's sovereign debt is estimated at $3 billion. In October 1999 the government withdrew plans for a $400 million Eurobond issue, citing the improved performance of the economy in the wake of increased oil prices. Oman maintains a solid reputation for credit worthiness. In March 2000 Standard and Poors revised Oman's credit rating back to "stable," an improvement from the negative rating that it had in 1999 due to low oil prices. There are no International Monetary Fund or World Bank adjustment programs. The government gives little publicity to the occasional modest foreign aid that it donates. Sultan Qaboos also makes occasional personal donations to Arab causes, Muslim institutions, or worthy foreign organizations. Oman does not publish figures on the level of its external debt or its fund to meet future contingencies and the State General Reserve Fund (SGRF). The 1998 budget crunch required a drawdown of $704 million from the SGRF in 1998 and $1.17 billion through August 1999, an increase of 200 percent over the corresponding period in 1998. However, from March 1999 the SGRF has been generously replenished, since all oil revenues in excess of $9 dollars a barrel in 1999 and $14.50 in 2000 were transferred to the SGRF.

5. Significant Barriers to U.S. Exports

Special activity licenses are required to import pharmaceuticals, liquor, and defense equipment. Some foreign suppliers have previously complained that exclusive agency agreements are difficult to break. In September 1996 Oman amended its agency law to allow non-exclusive representational agreements. Oman has now acceded to the WTO, after introducing new legislation in order to comply with WTO requirements on the removal of non-tariff barriers to trade, intellectual property protection, licensing, application of standards and sanitary measures to imports, and customs valuation and other customs requirements. Oman also established commitments for market access for goods and services in the context of its WTO accession.

Service barriers consist of simple prohibitions on entering the market. For example, prior to the WTO accession negotiations, entry by new foreign firms in the areas of banking, accountancy, law and insurance was not permitted (except as contracted for specialized services required by the government). Oman now has established specific commitments allowing market access in these areas, subject only to maximum equity participation of 70 percent. Joint ventures for professional services are encouraged between Omanis and foreign firms, ensuring that foreign professions have an Omani partner to do business. The central bank seeks the strengthening and further consolidation of existing banks. It has placed limits on the percentage of the consumer loan portfolios and is pressing for the BIS 12 percent capital adequacy standard. Citibank has a wholly-owned branch in Muscat. Major U.S. engineering and accounting firms are well represented. Omani firms appear quite open to affiliation with U.S. firms. The U.S. firm Curtiss, Mallet-Prevost, Colt & Mosle is the only U.S. law firm with an office in Muscat and serves as legal counsel to the Ministry of Electricity and Water for the Salalah power privatization project, and the Muscat Municipality on the Muscat Wastewater Project.

Tax policy discourages wholly foreign-owned firms, although firms with up to 70 percent foreign ownership are taxed at the same rates as Omani firms. There is a case-by-case approach towards major projects by more than 70 percent or wholly foreign-owned firms. Oman attempts to attract foreign firms and investors to participate in joint ventures with Omani ownership. For very large strategic projects, Oman may offer foreign investors control commensurate with their investment and risk.

Oman uses a mix of standards and specifications systems. Generally, GCC standards are adopted and used. However, because of the long history of trade relations with the UK, British standards have also been adopted for many items, including electrical specifications. Oman is a member of the International Standards Organization and applies standards recommended by that organization. U.S. exporters sometimes run afoul of dual language labeling requirements or, because of long shipping periods, have trouble complying with shelf-life requirements. Oman's WTO accession will gradually ameliorate these requirements, in line with WTO requirements. U.S. export brokers and Omani trading firms are prone to trade difficulties when deliveries are not made within demanding government tender delivery dates.

Despite requirements to "Omanize" the work force, the private sector depends on a high number of expatriates for managerial, technical, and physical labor. Government statistics indicate that nearly 90 percent of workers in the private sector are expatriates.

Oman continues to promote "Buy Omani" laws; this is a slow process as very few locally made goods are available that meet international standards. The Tender Board evaluates the bids of Omani companies for products and services at 10 percent less than the actual bid price, but imported goods and services bid by Omani agents are said to receive the same national preference. Because of short lead times on open tenders, it is often difficult to notify U.S. firms of trade and investment possibilities, and thereafter difficult for those firms to obtain local agents and prepare tender documents. Foreign firms seeking to compete for open and unpublished tenders find it advantageous to develop relationships with local firms. In the context of its WTO accession, Oman has committed to initiate negotiations to join the Government Procurement Agreement, and some of the "buy Omani" requirements are likely to be relaxed as a result.

Oman's customs procedures are complex. There are complaints of sudden changes in the enforcement of regulations. This should improve as WTO provisions on customs valuation and licensing are gradually implemented. As part of "Omanization," only Omani nationals are permitted to clear shipments, and the right to distribute will be opened only to foreigners with minimum equity investment requirements. Oman, however, has committed to expand the right to import and export to foreign as well as domestic entities in the context of joining the WTO. Processing of shipments at Omani ports and airports can add significantly to the amount of time that it takes to get goods to the market or inputs to a project. Overland shipments from the UAE seldom encounter problems, offering one possible solution.

Oman substantially eased visa requirements in 1999 by offering a 72-hour visa for U.S. and European tourists and businessmen arriving at Muscat's Seeb Airport. Effective October 1, this visa has been extended to fifteen days. However, the visa is non-extendable and the airline carrying the passenger is responsible for ensuring that the visitor departs on time, which in turn has discouraged use of the visa. Two-year multiple-entry visas can be issued to American tourists and business representatives. In general, these visas are only issued at Oman's Washington embassy, although U.S. professionals residing in GCC countries can receive multiple-entry visas at the port of entry. Visa denials are not unusual for unaccompanied women tourists and young adult males. In late 1996 the Royal Oman Police reduced non-resident stays from two months to one month per entry, thereby hampering business visits of longer duration by U.S. and by non-U.S. citizen employees of U.S. firms. These visas can only be extended outside Oman, so visitors whose activities keep them here longer than a month face the added expense of a trip, usually to Dubai, for a visa renewal.

6. Export Subsidies Policies

Oman's policies on development of light industry, fisheries, and agriculture aim to make those sectors competitive internationally. Investors in these three sectors receive a full range of tax exemptions, utility discounts, soft loans and, in some cases, tariff protection. The government has also set up an export guarantee program that both subsidizes the cost of export loans and offers a discounted factoring service.

7. Protection of U.S. Intellectual Property

Oman's record on intellectual property protection has improved dramatically in recent years, in tandem with its now successful efforts to accede to the WTO. Oman will have to begin meeting its obligations under the WTO's Trade Related Aspects of Intellectual Property (TRIPS) Agreement immediately upon WTO accession. Oman is a member of the World Intellectual Property Organization (WIPO), and in 1998 declared its accession to the Paris Convention for the Protection of Industrial Property (patents, trademarks and related industrial property) and Bern Convention for the Protection of Literary and Artistic Works. In 1998 and 1999 the Omani government implemented a ban on sales of pirated video and audiocassettes and pirated computer software, which once had dominated the local market. Since the government began enforcement of these bans, sales of pirated tapes and computer software has virtually disappeared. The Omani government has also recently begun enforcing a ban on the use of pirated software at commercial establishments and has published warnings to this effect in the local press in mid September.

Oman has a trademark law, which it enforces, but application for trademark protection requires a local agent. Prior to its WTO accession, Oman afforded little or no patent protection in critical areas such as pharmaceutical products. Now, Oman will establish its own Patent Office, its copyright legislation is fully WTO-consistent, and it is in the process of finalizing IPR enforcement legislation that conforms closely to WTO requirements.

8. Worker Rights

Sultan Qaboos issued "The Basic Law" in 1996 which serves as Oman's basic legal framework, akin to a constitution and consistent with Islamic Shari'a Law. In theory, the Sultanate should have issued legislation implementing the Basic Law's provisions within two years of its issuance, but that has not yet occurred. It is unclear whether or how any of the expected implementing measures will affect worker rights.

a. *The Right of Association:* Articles 33 and 34 of the Basic Law establish the right of assembly and freedom of association, consistent with legal limitations. Currently, Omanis and resident foreigners alike are free to join only a very few officially sanctioned associations.

b. *The Right to Organize and Bargain Collectively:* Since 1994, the Sultanate has indicated that it is reviewing a new labor law drafted by the Ministry of Social Affairs and Labor. Sultanate officials have characterized its provisions as consistent with international labor standards. It will reportedly contain a provision for the establishment of worker committees in the work place and remove the current prohibition against strikes. Oman is a member of the International Labor Organization.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory or forced labor is illegal. That said, foreign workers are typically unaware of their right to take disputes over contract enforcement to the Labor Welfare Board or are afraid that questions regarding their employment status will result in deportation.

d. *Minimum Age for Employment of Children:* The Ministry of Social Affairs and Labor enforces 13 as the minimum employment age. Employers require the Ministry's approval to engage children between 13 and 16 years of age in overtime, night, weekend or holiday, or strenuous work. Nonetheless, small family businesses in practice may employ underage children, particularly in the agricultural and fisheries sectors.

e. *Acceptable Conditions of Work:* The minimum wage for nonprofessional expatriate workers is about $156 month, less any charges by Omani sponsors for the workers' visas, but this does not cover domestic workers, farm hands, government employees, and workers in small businesses. Omani nationals tend to be well protected. Most employed Omanis work for the government, with a 35-hour work week and generous leave of from 42 to 60 days annually plus 9 days emergency leave and Omani holidays. Skilled foreign workers predominate in private sector employment and enjoy regionally competitive wages and benefits. Whether covered by the law or not, many unskilled foreign workers work for less than the minimum wage and for hours exceeding the 40- to 45-hour private sector work week. The temperature during Oman's hot summer has never been officially recorded at the 50 degree (Celsius) mark (122 degrees Fahrenheit), which, adhering to an International Labor Organization standard, would mandate the stoppage of outside labor. Non-Muslim workers are expected to respect the Ramadan month of daytime fasting by not publicly drinking or eating. Foreign workers find Oman very attractive for its employment opportunities and general living conditions.

f. *Rights in Sectors with U.S. Investment:* To date, U.S. firms have little direct investment in Oman. U.S. petroleum firms operating in Oman comply fully with Omani labor law.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		([1])
Total Manufacturing		0
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		([1])
Finance/Insurance/Real Estate		([1])
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		69

([1]) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

SAUDI ARABIA

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [2]
Income, Production and Employment:			
Nominal GDP	128.9	140.0	168.7
Real GDP Growth (pct)	1.6	0.4	4.0
GDP by Sector:			
Agriculture	9.1	N/A	N/A
Manufacturing (including oil)	12.6	N/A	N/A
Services	57.5	N/A	N/A
Government	34.2	N/A	N/A
Per Capita GDP (US$)	6,195	6,584	6,972
Labor Force (millions)	6.5	7.8	7.8
Unemployment Rate (pct)	N/A	N/A	14
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	2.5	8.2	1.0
Consumer Price Inflation	–0.2	1.0	N/A
Exchange Rate (SR/US$ annual average)			
Official	3.745	3.745	3.745
Balance of Payments and Trade:			
Total Exports FOB	39.7	37.5	N/A
Exports to United States	5.1	8.9	7.1
Total Imports FOB	–27.5	–27.4	N/A
Imports from United States	5.9	7.9	2.8

Key Economic Indicators [1]—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [2]
Trade Balance	12.1	10.0	N/A
Balance with United States	N/A	N/A	N/A
Current Account Deficit/GDP (pct)	–13	–3.9	21
External Public Debt	N/A	N/A	N/A
Debt Service Payments/GDP (pct)	5.3	5.1	N/A
Fiscal Deficit/GDP (pct)	8.8	7.0	N/A
Gold and Foreign Exchange Reserves	17.8	17.8	17.8
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Sources: IMF International Statistics Yearbook 1999; Saudi-American Bank Economic and Market Update; U.S. Embassy Riyadh 2000 Saudi Economic Trends Report; IMF Saudi Arabia Statistical Index; Saudi Arabian Monetary Agency, Thirty-Sixth Annual Report, 2000.
[2] 2000 figures are projections. Exports and imports with U.S. are for the period Jan.-June 2000.

1. General Policy Framework

Saudi Arabia's leadership is moving towards establishing a free market economy. Although parastatals still dominate the economic output, there has been decisive movement by the Crown Prince to open up the economy to foreign investment and level the playing field for foreign investors.

Since about 1970, Saudi Arabia has published a series of five-year development plans, focusing on infrastructure and industrialization. Development plans, however, are presented as planning tools, not as centralized controls, and the government emphasizes that its development plans rely on significant private sector involvement. The Council of Ministers approved the country's seventh Five-Year Plan on August 28, 2000. Highlights of the new plan include achieving an average annual GDP growth of 3.1 percent (the private sector is expected to grow at an average annual rate of 5 percent), promoting further diversification of the economy away from its heavy reliance on the oil sector, and providing employment to a growing number of unemployed Saudi citizens.

The Saudi government is also undertaking a number of reforms designed to bring its trade regime in line with the standards required for accession to WTO. Other economic reform measures include the formation of the Supreme Economic Council and the Supreme Petroleum and Minerals Council in late 1999. Saudi Arabia's Council of Ministers also approved a new Foreign Investment Law on April 10, 2000, which should make it easier for foreign companies to establish themselves in Saudi Arabia (see Section 9 below). The law establishes a framework for future legislative and regulatory activities in order to enhance the foreign investment climate in the country. The newly established Saudi Arabian General Investment Authority (SAGIA) will manage investments under the new code.

The oil and public sectors remain the engines of the Saudi economy. Parastatal enterprises, such as Saudi ARAMCO (oil) and Saudi Basic Industries Corporation (SABIC—petrochemicals), and utilities, among others, dominate the economy. Spending decisions taken by the few large state companies reverberate throughout the economy. Concerned with the security challenges posed by its neighbors, Saudi Arabia has been a large purchaser of advanced military technology.

In 1999 oil sector revenues comprised 30 to 40 percent of GDP, and an estimated 75 percent of budget revenues. Other government revenues, including items such as customs duties, investment income, and fees for services, are to a large degree indirectly tied to oil, as capital available for consumption and investment is generally derived from oil receipts. In addition, the manufacturing and services sectors are largely dependent on petroleum and petrochemical activities.

Starting with the oil boom in 1973, Saudi Arabia maintained annual budget surpluses until 1982, when the decline in oil prices led to a renewed budget deficit, a situation that continued over the next 17 years. Initially, the deficits were financed by a drawdown of foreign exchange reserves. Starting in 1987, the government began financing deficits through internal borrowing. Public sector debt, largely in the form of central government bonds held by domestic banks and the government pension fund, exceeded 120 percent of GDP at the end of 1999.

Following the collapse in oil prices in late November 1997, Saudi oil revenues dropped by 35 percent in 1998, leading to a deficit of $12.3 billion, or almost 10 percent of GDP. Oil prices rebounded in 1999 and 2000. The budget deficit was reduced to four percent of GDP in 1999 and a budget surplus is widely expected in 2000. Oil revenues for 2000 are projected to be on the order of $77 billion.

Money supply is regulated through the Saudi Arabian Monetary Agency (SAMA), which has statutory authority to set monetary reserve requirements for Saudi Arabian banks, impose limits on their total loan portfolio, and regulate the minimum ratio of domestic assets to their total assets. It also manages the bond market, and can repurchase development bonds and treasury bills as required. There is a limit to the amount of bonds that can be repurchased. In January 1999 the United Saudi bank merged with the Saudi-American Bank (SAMBA), leaving a total of nine banks in the banking community. All nine banks have majority private ownership, with the exception of National Commercial Bank (NCB). NCB sold 50 percent of its velopment bonds having two-to-five year maturities. After the massive defense expenditures of the 1991 Gulf War, the government expanded its borrowing by signing loan syndications with international and domestic banks, and by introducing treasury bills. This debt, owed almost entirely to domestic creditors, such as autonomous government institutions, commercial banks, and individuals, exceeded 120 percent of GDP at the end of 1999. In addition, the government issued a series of bonds to farmers and some other private sector creditors (mainly contractors) for past due amounts. Paying down this debt is now a priority for the government and there are indications that additional oil revenues in 2000 are being used to pay down this debt.

Non-governmental external debt stood at $28 billion in 1998, up from $16 billion in 1996. This debt is serviceable, especially in light of improved oil revenues.

5. Significant Barriers to U.S. Exports

Saudi Arabia is currently in the process of negotiating accession to the World Trade Organization (WTO). WTO membership will bring changes to a number of current regulations that have the potential to restrict entry of U.S. exports and investments.

Import licensing requirements protect Saudi Arabian industries or enhance Saudi Arabian businesses. In most cases, foreign companies must operate through a Saudi Arabian agent. Contractors for public projects must purchase equipment and most supplies through Saudi agents. (This agency requirement does not apply to defense-related imports). Saudi Arabia requires licenses to import agricultural products.

Saudi Arabia's pre-shipment inspection regime, known as the International Conformity Certification Program (ICCP), is designed to protect Saudi Arabian consumers from inferior foreign products. The ICCP has elements that can be viewed as barriers to free trade, such as an ad valorem-based fee schedule, and remains controversial. It adds inspection costs to imported civilian products, may delay shipments to Saudi Arabia, and can increase exporter overhead.

Restrictions on shelf life labeling standards in Saudi Arabia may make it difficult for some U.S. food producers to compete in the Saudi market. In July 2000 Saudi Arabia announced a ban on all genetically modified (GMO) food products. This was soon replaced by a labeling requirement and companies were given a six-month grace period to comply with the new regulations scheduled to take effect on February 1, 2001. On December 21, 2000 the Commerce Minister extended the grace period for implementing the labeling requirement until December 1, 2001 and banned the importation of GMO animal products. Therefore, if a product contains one or more genetically modified and plant ingredients, the information is supposed to be clearly communicated to the consumer in the required label. The Minister also required that GMO imports must be accompanied by a certificate issued by the producing country stating that the product was approved for consumption in the country of origin.

Saudi Arabia gives preference to imports from other members of the Gulf Cooperation Council (GCC) in government purchasing, with a 10 percent price preference over non-GCC products for government procurement.

Saudi Arabia requires foreign civilian contractors to subcontract 30 percent of the value in public works contracts to Saudi owned companies. Many firms have reported that this has not been enforced consistently. Some U.S. businessmen have complained that this is a barrier to the export of U.S. engineering and construction services. Other service industries are restricted to government-owned companies, e.g., certain insurance and transportation services.

Saudi labor law requires companies to employ Saudi nationals, but foreigners account for at least 65 percent of the private sector labor force. Large companies are required to increase their percentage of Saudi employees by a certain percentage annually or face restrictions. This emphasis on "Saudiization" is increasing as the number of unemployed/underemployed Saudis increases with the growth in population.

6. Export Subsidies Policies

Saudi Arabian planners say that there are no export subsidy programs for industrial projects. Because feedstock prices are relatively low in Saudi Arabia, industrial production of petroleum and related downstream products is comparatively attractive. The government argues that this is simply a reflection of the low cost of domestic oil production. On January 1, 1998 the Saudi government announced a 50 percent across-the-board increase in natural gas prices from $.50/million btu to $.75/million btu. The government has reduced subsidies to agriculture, which has resulted in reduced agricultural production available for export.

7. Protection of U.S. Intellectual Property

Although the terms of legislation in Saudi Arabia to protect intellectual property rights are generally sufficient, enforcement of IPR is lacking and abuses are common. Saudi Arabia has applied to join the WTO and is revising all of its intellectual property laws to make them conform with the WTO's Trade Related Aspects of Intellectual Property (TRIPS) standards. Saudi Arabia remains on the USTR's "Special 301 Watch List," having moved up in 1996 from the program's "Priority Watch List" in recognition of progress made in intellectual property rights protection. Saudi Arabia has joined the Universal Copyright Convention, and is a member of the World Intellectual Property Organization (WIPO), though not a contracting party to any of the treaties administered by WIPO. Efforts to protect intellectual property rights are uneven, and audio, video and software companies want greater protection of their product content in the Kingdom. The Ministry of Interior is responsible for enforcement of IPR violations.

Patents: Saudi Arabia has enacted a patent regulation in 1989 and established a patent office at the King Abdulaziz City for Science & Technology (KACST). The regulation was patterned along the lines of the U.S. patent law, but does not reproduce it. The terms of patent protection are generally adequate, but the period of protection is fifteen years, five years less than the international TRIPS standards. The regulation permits compulsory licensing if the patent holder refuses to use the patent, or for other public policy reasons, on a wider basis than permitted under TRIPS. KACST is currently implementing a three-year action plan to bring the regulation into compliance by 2002. The Patent Office suffers from inadequate resources to enable it to carry out is work effectively. The office has received several thousand patent applications since 1989, but has only completed thirty-four of them. The GCC established a parallel patent office in October 1998, and may eventually be able to help alleviate the backlog. The GCC Patent Office hopes to issues its first patents by the end of 2000.

Revisions to the GCC patent law were approved at the GCC Supreme Council Summit in Riyadh on November 27–28, 1999. Amendments to the Implementing By-laws were approved this past April and entered into force on August 15, 2000. These changes include extension of the term of protection from 15 years to 20 years (from the date of filing of the patent application with the GCC patent office), and the extension of protection to pharmaceutical products in all GCC states, including product and process protection.

Trademarks: Trademarks are registered at the Ministry of Commerce. The registration process is relatively uncomplicated, although some companies have complained that registration and search fees are high. Legal remedies for infringement of a trademark do exist, but enforcement of trademark protection is inconsistent. The most pervasive problem in Saudi Arabia regarding IPR infringements is the proliferation of pirate manufacturers and importers of unauthorized copies of brand name products. It is estimated that from 25 to upward of 50 percent of all major brand consumer goods sold in Saudi Arabia are illegal copies.

Copyright: Saudi Arabia has indicated that it is in the process of amending the current copyright law to comply with the provisions of the TRIPS Agreement. The current level of enforcement has been insufficient to deter piracy. Saudi Arabia has also told WTO members that it will not fully implement TRIPS until 2002. The most pressing problem in Saudi Arabia in this regard is the unauthorized copying and sale of computer software. In some cases the sales of unauthorized software copies exceed 90 percent market share. While a few raids have been conducted, overall enforcement in not carried out with sufficient regularity and is not accompanied by the appropriate level of publicity and sentences to reduce the level of piracy. Estimates of losses to U.S. copyright-based industries due to piracy in 1999 were $86.2 million.

8. Worker Rights

a. *The Right of Association:* Saudi regulations prohibit labor associations.

b. *The Right to Organize and Bargain Collectively:* Expatriates perform much skilled and almost all unskilled labor. Non-Saudi workers who seek to organize may be deported. In 1999, however, foreign hospital, food processing, and construction workers staged work stoppages in Jeddah to protest against a failure to pay salaries for several months. Similar "walk-outs" have taken place in 2000, involving foreign workers in Jeddah and Dammam.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited. However, employers have significant control over the movements of foreign employees, which sometimes gives rise to situations that involve forced labor, especially in the case of domestic servants or in remote areas where workers are unable to leave their place or work. During the past three years, the government has expelled many workers without proper work permits.

d. *Minimum Age for Employment of Children:* The labor law states that "a juvenile who has not completed 13 years of age shall not be employed." This restriction may be waived by application to the Ministry of Labor with the consent of the juvenile's parent or guardian. Children under 18 and women may not be employed in hazardous or unhealthy occupations. Wholly-owned family businesses and family-run farms are exempt from these rules.

e. *Acceptable Conditions of Work:* Labor laws limit the work week to 48 hours, including no more than eight hours a day and no more than five hours without a break for rest, prayer, and food. Laws require employers to provide health insurance to protect workers from job-related hazards and diseases and to pay time-and-one-half for hours (up to 12) over the 44 hours normally worked per week. The average wage generally provides a decent standard of living for a worker and family. While expatriate laborers come to Saudi Arabia because they can earn more than they could at home, there have been many reports of workers whose employers refused to pay several months, or even years, of accumulated salary or other promised benefits.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those elsewhere. Conditions of work at major U.S. firms and joint-venture enterprises are generally better than elsewhere in the Saudi economy. Workers in U.S. firms normally work a five to five-and-one-half day week (i.e., 44 hours) with paid overtime. Overall compensation tends to be at levels that make employment with U.S. firms attractive.

9. New Foreign Investment Law

The Council of Ministers endorsed a new foreign investment law on April 10, 2000. The new law aims to create a more attractive environment for foreign investors in Saudi Arabia. The main aspects of the new law are as follows:

A. Without prejudice to the requirements of regulations and agreements, the General Investment Authority shall issue a license for a Foreign Capital Investment in any investment activity in the Kingdom, whether permanent or temporary. The Authority shall make a decision about the investment application within thirty days after the completion of documents provided for in the Rules of Implementation. In the event that the specified period elapsed without the Authority rendering a decision about the application it shall be obligated to issue the required license for the investor. If the Authority shall deny the said application within the specified period, then the pertinent decision of denial shall be justified, and the party against whom the decision of denial had been issued shall have the right to contest such decision according to regulations.

B. The Supreme Economic Council shall have the authority to issue a list of activities excluded from Foreign Investment.

C. The Foreign Investor may obtain more than one license in different activities, and the Rules shall specify the necessary measures.

D. Foreign investments licensed under the provision of this Act may be in either of the following forms: Facilities owned by a national and a Foreign Investor; Facilities wholly owned by a Foreign Investor. The legal form of the Facility shall be determined according to regulations and directives.

E. A project licensed under this Act shall enjoy all the benefits, incentives and guarantees enjoyed by a national project according to regulations and directives.

F. The Foreign Investor shall have the right to reallocate his share as derived from the selling of his equity, or from the liquidation surplus or profits generated by the facility, out of the Kingdom or to use by any other legal means, and he shall also be entitled to transfer the required amounts to settle any contractual obligations pertaining to the project.

G. The foreign facility licensed under this Act shall be entitled to possess the required real estate as might be reasonable for practicing the licensed activity or for the housing of all or some of the staff as per the provisions for non-Saudi nationals real estate acquisition.

H. The Foreign Investor and his non-Saudi staff shall be sponsored by the licensed facility.

I. The Authority shall provide all those interested persons in investment with all necessary information, clarifications and statistics, together with all services and procedures to facilitate and accomplish all matters pertaining to the investments.

J. Investments related to the Foreign Investor shall not be confiscated wholly or partially without a court order, moreover, it may not be subject to expropriation wholly or partially except for public interest against an equitable compensation according to Regulations and Directives.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment in Saudi Arabia on a Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		237
Total Manufacturing		144
Food and Kindred Products	(1)	
Chemicals and Allied Products	74	
Primary and Fabricated Metals	15	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	2	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		97
Banking		(1)
Finance/Insurance/Real Estate		1,701
Services		290
Other Industries		(1)
TOTAL ALL INDUSTRIES		4,231

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Generally it is assumed that the true value of U.S. direct investment in Saudi Arabia is in the range of $7 to 8 billion with the large majority in the petrochemical field. Antitrust concerns and general difficulties in gathering statistics make the exact aggregation of data impossible.

TUNISIA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
Income, Production and Employment:			
Nominal GDP[2]	17,410.6	18,273.7	17,736.2
Real GDP Growth (pct)[3]	5.4	6.2	5.0
GDP by Sector:			
Agriculture	2,493.7	2,695.1	2,550.5
Manufacturing	3,651.8	3,804.0	3,694.3
Services	6,954.7	7,323.9	7,190.8
Government	2,693.9	2,752.2	2,614.3
Per Capita GDP (US$)	2,145.1	2,217.8	2,130.2
Labor Force (000s)	2.92	2.99	3.06
Unemployment Rate (pct)	16.5	15.8	15.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.5	10.2	N/A
Consumer Price Inflation	3.1	2.7	3.0
Exchange Rate (TD/US$ annual average)			
Official	1.1343	1.1891	1.3407
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB[4]	5,746.5	5,859.0	5,959.6
Exports to United States[4]	28.5	44.0	41.0
Total Imports CIF[4]	8,365.9	8,469.0	8,194.5
Imports from United States[4]	289.2	364.7	519.7

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Trade Balance [4]	–2,619.4	–2,610.0	–2,111.3
Balance with United States	–260.7	–320.7	–478.7
External Public Debt	9,743.6	9,908.3	9,193.0
Fiscal Deficit/GDP (pct)	1.2	3.5	2.7
Current Account Deficit/GDP (pct)	3.4	2.1	2.3
Debt Service Payment/GDP (pct)	7.6	7.2	8.7.
Gold and Foreign Exchange Reserves	1,807	2,354	2,250
Aid from United States	0.9	8.4	9.4
Aid from All Other Sources [5]	N/A	N/A	N/A

[1] 2000 figures are all estimates based on monthly data available in September.
[2] GDP at factor cost. Nominal GDP figures are distorted by the depreciation of the Tunisian dinar relative to the dollar.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade; 2000 figures are extrapolated from 5 months results.
[5] Tunisia does not publish official aid figures.

Source: Tunisian Central Bank and other government sources.

1. General Policy Framework

Tunisia has made significant progress toward establishing a market economy over the past decade. The European Union (EU)-Tunisian Free Trade Accord (Association Agreement) was signed in 1995 and formally came into effect on March 1, 1998. Tunisia, having started implementing significant reforms in 1996, is on schedule in reforming its economy as required by the agreement. Over a 12-year period, the terms of the agreement require the Tunisian government to eliminate import tariffs on EU origin goods and open the market to business competition. The Central Bank of Tunisia (Banque Central Tunisien, BCT) notes that the continuing drop in tariff income is a result of the phasing out of tariffs in accordance with the EU agreement. Starting in 2000, products of EU origin, that have Tunisia-made equivalents (currently around 40 percent), can now be imported duty-free. In 1999 tariff revenues did not match expectations of $715 million, instead totaling only $573 million. The 2000 tariff reduction estimates are expected to result in further reductions to $546 million. In addition, the Tunisian Government has reduced tariffs on some of the same products originating from other countries in order to reduce pressure from non-EU suppliers and maintain diversified markets. The government revised the tax code in July 2000 to increase domestic tax revenues to replace lost tariff income. In the long run, Tunisia is betting that the Association Agreement will help the country by attracting foreign investment and creating an export-oriented economy based increasingly on manufactured products.

Initially, the government expects significant economic uncertainty as state-owned firms are privatized, jobs are eliminated, and companies are forced to become more efficient. Unemployment remains a major problem with the official rate at 15.8 percent in 1999 (down from 16.5 percent in 1998). Actual unemployment is widely believed to be higher, with some regions registering 30 percent. In the long run, Tunisia is betting that the Association Agreement will help the country by attracting foreign investment and creating an export-oriented economy based increasingly on manufactured products. Perhaps reflecting this strategy, job creation was better than expected in 1999 with 61,000 new jobs. The 2000 estimate is for 63,000 new jobs, which would fulfill 90 percent of the total demand. (There are no published figures for jobs lost).

The government's fiscal policy is socially oriented, designed to raise living standards and reduce poverty while maintaining economic and political stability. Approximately 61 percent of the government budget is allocated for social programs, providing subsidies for education, basic foodstuffs and support for the poorest sectors of society.

Increases to the annual minimum wage (currently 187 Tunisian dinars [TD] per month, or $144, for a 48-hour work week) have kept pace with the official inflation rate, which should remain between 3.0 and 3.5 percent for 2000. (Actual inflation may be somewhat higher according to World Bank estimates). The BCT claims that the low inflation rate is due to a rigorous monetary policy, better distribution networks, enhanced competition, diversified economic control, and a sound consumer behavior awareness campaign. Non-regulated products now make up more than two-thirds of the general price index and, increasingly, their prices are at a lower rate than regulated products. In short, the Tunisian government has continued its prudent inflation policy.

The government's predicted GDP growth for 2000 was recently lowered from six to five percent due to lower than expected agricultural production (the result of a serious drought) and lower than anticipated growth in the tourism sector. GDP growth in 1999 reached 6.2 percent, larger than initial estimates. With its slowly opening market, Tunisia's trade deficit continues to grow, increasing by 4.5 percent in 1999. The agriculture sector showed a 28 percent increase in exports and a trade surplus in 1999. However, due to the drought, the country is likely to return to a trade deficit in foodstuffs in 2000. Current estimates show import values increasing by 16 percent and export values increasing by 14 percent. While the United States is the fourth largest exporter to Tunisia, its share is only 6.3 percent. In addition, since 1996, imports from the European Union have increased by 35 percent, while non-EU imports have decreased by 20 percent. On a value basis, U.S. exports are heavily influenced by aircraft sales. A recent re-organization of TunisAir (the government-owned airline monopoly) appears to favor Airbus Industries for future aircraft purchases. The U.S.-North Africa Economic Partnership (USNAEP) has begun work in Tunisia and will help raise the profile of Tunisia as a trading partner and as an investment market for the United States. Opportunities for U.S. exports include electrical power generation systems, construction, engineering services, telecommunications, computer equipment, and agricultural products and equipment. Tunisia is also in the process of opening its market for higher education and adult education.

The government, which exercises considerable control over the Central Bank, the stock market, and other financial institutions, has maintained tight control of the money supply. In 1999 foreign exchange reserves increased by 19.5 percent to $2.4 billion, but had fallen to $1.5 billion by mid-year 2000 following a common cyclical pattern. This range of reserves equals two to three months of imports. The government has continued its policy of not allowing the Tunisian dinar to be traded on international markets. The government exchange controls for Tunisians traveling abroad were recently loosened, but still remain strict. Citizens are now permitted to carry up to 1,000 dinars (approximately $700), as opposed to 500 dinars, out of the country per year.

2. Exchange Rate Policy

While the dinar is not traded on the world market, it is commercially convertible for most trade and investment operations, though certain restrictions apply. Central bank authorization is needed for large-scale foreign exchange operations.

The value of the dinar is tied to a basket of foreign currencies, primarily those of Tunisia's major trading partners such as Germany, France, Italy, Japan and the United States. All exchange rate transactions are done internally, and the Tunisian Central Bank allows the rate to float only within a narrow band fixed by the Bank. There is no "parallel" or black market for currency exchanges within Tunisia, although such markets for the dinar exist in Libya and Algeria. In 2000 the dollar has continued to gain on the dinar. As of October 16, 2000, one dollar bought 1.47 dinars, as opposed to 1.19 one year ago and 1.25 at the end of 1999.

3. Structural Policies

To meet the terms of the EU Association Agreement, the government is continuing to introduce structural economic reforms initiated in 1987 with the IMF and World Bank. As customs duties are eliminated over a 12-year period for a wide range of imports, Tunisian companies will have to become more competitive. In conjunction with the Agreement, and in response to World Bank suggestions, the government has vowed to accelerate its privatization program. By the end of 1999, the government completed 288 privatization operations involving 136 companies, generating $797 million dollars in revenue (58.7 percent is held in foreign currency).

Tax and customs policies favor "offshore" Tunisian-based foreign companies which manufacture locally and export 80 percent or more of their production. Such operations enjoy 10-year tax-free status and other benefits. During the first nine months of 2000, 85 new offshore companies have been established, with 69 companies exporting their entire production. These enterprises have created more than 4,500 new jobs. Foreign companies that import materials for use or sale in the Tunisian market, however, have continued to see customs duties rise, where permitted by World Trade Organization (WTO) rules. This has adversely affected Tunisian-based U.S. companies that depend on materials produced in the United States for their products. In practice it remains very difficult for foreign companies to produce in Tunisia for the domestic market.

Tunisia has three Value-Added Tax (VAT) rates (6, 18 and 29 percent) based on the category of goods sold (i.e., luxury or staple products). In order to make up for the decline in import duties, the government raised its middle VAT rate in 1997 from 17 to 18 percent, and made greater efforts to enforce compliance on retailers, causing price increases on a wide range of domestic and foreign products. In 1999 receipts from VAT were $623 million, 34 percent above the 1997 level due to increased import volume. The estimate for 2000 receipts is $640 million.

As the government continues to modernize its power generation utilities and industrial infrastructure, its official policy has been to make contract bidding transparent and open to foreign companies. U.S. firms have been actively encouraged to bid on a number of procurement contracts. Unfortunately, between 1996 and 1999, official tender policies were not always strictly adhered to and factors other than price and quality of technology offered appear to have played a role in the awarding of contracts. Examples involving competing U.S. and foreign firms include contracts in the electronics and agricultural sectors of the economy. Such occurrences could deter U.S. companies from bidding on future public contracts. However, private sector sources gave the government high marks for its transparency and fairness in handling the bidding for the Rades II independent power plant. This project was won by a U.S.-led consortium in April 1999 and is worth between $400 and $450 million. In 2000 Lucent Technologies won two public tenders, with a combined value of $30 million, for supplying equipment to the government-owned telephone company.

4. Debt Management Policies

According to recent reports by the World Bank and the IMF, the government has managed its external debt portfolio well and has never had to reschedule its debt payments. Tunisia's budget deficit for 1999 was $729 million (3.5 percent of GDP). However, the deficit could fall below three percent in 2000 due to increased privatization receipts. Estimated GDP for 2000 is $20.8 billion. Tunisia's strong economic performance and low perceived commercial and political risk have been recognized in international financial markets, permitting the government to successfully float loans in the bond market. In 1997 the government tapped the U.S. market for the first time with the successful issuance of $400 million "Yankee" bonds. In 1999 Tunisia became the first African country to tap the euro denominated bond market with a successful $209 million bond offering. In 2000 Tunisia tapped into the Japanese market for the sixth time with two global Samurai bond offerings: $324 million over 10 years and $139 million over 30 years (Tunisia's first 30-year bond issuance). Another indication of Tunisia's sound debt management is that Standard and Poor (and Moody's) raised the government of Tunisia's rating from BBB (minus) to BBB.

In 2000 the government projected its foreign financing requirements to be approximately $503 million, a slight increase from 1999. Tunisia's foreign debt at the end of 1999 was $9.9 billion and is estimated to decrease to $9.5 billion by the end of 2000 (45 percent of gross revenue). Tunisia's debt service will rise over $1.5 billion (18.5 percent of income) this year.

5. Aid

Tunisia's USAID direct assistance program was terminated in 1998 due to the country's progress on economic growth and development. In FY 2000 Tunisia received assistance in the following areas: $7 million in military assistance ($4 million of Draw Down Authority and $3 million of Foreign Military Financing); $900,000 for International Military and Education Training, plus $150,000 in Department of Defense Humanitarian Assistance; $1.3 million for USNAEP programs; $44,000 for Democracy and Human Rights projects; and approximately $60,000 for Cocheran Fellowships through the U.S. Department of Agriculture. The government does not publish foreign aid figures; the amount of aid from other sources is therefore unavailable.

6. Significant Barriers to U.S. Exports

The most significant barriers to trade with Tunisia are the small size of the market and the legal and practical limitations to regional trade. While Tunisia allows approximately 85 percent of goods to be imported without a license, import duties range from 10 to 230 percent (e.g., duties on cheese are 133 percent and 200 percent on milk). In addition, certain luxury consumer items and durable goods face consumption taxes as high as 500 percent (small engine automobiles 50 percent, large engine automobiles 295 percent, champagne 500 percent). The consumption tax is used to offset the gradual elimination of tariffs, and is levied predominately on luxury goods regardless of whether they are imported or produced in Tunisia. Also, the VAT is applied to certain categories of goods at the retail level.

Import authorization is generally required for goods that compete against those produced by developing Tunisian industries, such as textiles. Licenses are also required for expensive consumer goods, such as automobiles. The stated purpose of the licenses is to allow nascent local industries to grow, and when U.S. exports to Tunisia are seen as competition, they have been limited or prevented from entering.

Customs administrative procedures are often complex and burdensome, requiring time and patience to complete the paperwork demanded by the authorities. Problems that arise are addressed on a case by case basis, and business or political connections can greatly affect the rate at which products are cleared. Most foreign companies choose to work with private customs agents to expedite the processing of their imports.

While foreign investment is welcomed in most sectors, investment barriers exist. For on-shore companies within the services sector (defined as those with more than 20 percent of output destined for the Tunisian market), the government must authorize any foreign capital share of more than 49 percent. In the agricultural sector, foreign investors are denied treatment on par with Tunisians. Although land may be secured on long-term leases (40 years), foreign ownership of agricultural land is prohibited. For foreign companies producing for the Tunisian market, local content provisions may apply, and hiring of foreign personnel is subject to regulation and usually limited to senior management. Foreign companies cannot distribute products locally without a Tunisian distributor. The establishment of foreign franchise operations continues to be a complicated process and, in practice, there are few franchises in Tunisia. There is no limit on the amount of foreign currency which can the country's work force are members, but a greater number are covered by UGTT negotiated contracts. The UGTT is independent of the government but certain laws restrict its freedom of action. The UGTT leadership has tried to cooperate with the government and support its economic reform programs, in return for regular wage increases and protection for workers.

b. *The Right to Organize and Bargain Collectively:* This right is protected by law and observed in practice. Wages and working conditions are set in triennial negotiations between the UGTT member unions and employers, and anti-union discrimination by employers is prohibited. Though the government does not participate in the private sector negotiations, it must approve, but cannot modify, the negotiated agreements.

c. *Prohibition of Forced or Compulsory Labor:* Tunisia abolished compulsory labor in 1989, and ended the practice of sentencing convicts to "rehabilitation through work" in 1995.

d. *Minimum Age for Employment of Children:* The minimum age for employment in manufacturing is 16 years, and 18 for certain hazardous occupations. The minimum age for light work in agriculture and nonindustrial sectors is 13 years, but children aged 13–15 may only work two hours per day. The government requires children to attend school until age 16 and employers must observe certain rules to ensure children obtain adequate rest and attend school. The UGTT has expressed concern that child labor continues to exist, disguised as apprenticeship.

e. *Acceptable Conditions of Work:* The Labor Code provides for a range of minimum wages, which are set by a commission of government, UGTT and employers' representatives. Most business sectors observe a 48-hour workweek, with one 24-hour rest period. The government often has difficulty enforcing the minimum wage law, especially in nonunionized sectors of the economy. Workplace health and safety standards are enforced by the government.

f. *Rights in Sectors with U.S. Investment:* Working conditions tend to be better in export-oriented firms than in those producing exclusively for the domestic market.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		76
Total Manufacturing		30
Food and Kindred Products	31	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	–1	
Other Manufacturing	0	
Wholesale Trade		0
Banking		–4
Finance/Insurance/Real Estate		0
Services		25
Other Industries		0
TOTAL ALL INDUSTRIES		127

Source: Department of Commerce, Bureau of Economic Analysis.

UNITED ARAB EMIRATES

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	47.3	52.0	59.0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Real GDP Growth (pct)	–3.9	10.0	13.5
GDP by Sector: [3]			
Agriculture	1.7	1.8	1.9
Manufacturing	6.1	6.5	7.0
Services	24.6	24.6	25.0
Government	5.5	5.7	6 .0
Per Capita GDP (US$)	16,995	17,700	19,666
Labor Force (000s)	1,400	1,500	1,600
Unemployment Rate (pct)	2.6	2.6	2.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	4.2	11.4	7.0
Consumer Price Inflation (pct)	1.5–2	1.5–2	1.5–2
Exchange Rate (Dirham/US$)			
Official	3.67	3.67	3.67
Balance of Payments and Trade:			
Total Exports FOB [4]	31.1	35.9	38.0
Exports to United States [5]	0.7	0.7	0.8
Total Imports CIF [4]	30.5	32.5	34.0
Imports from United States [5]	2.4	2.7	2.7
Trade Balance [4]	0.5	3.4	4.0
Balance with United States [5]	–1.7	–2.0	–1.9
Current Account Surplus/GDP (pct)	–2.3	3.4	13.0
External Public Debt	0.0	0.0	0.0
Debt Service Payments/GDP (pct)	0.0	0.0	0.0
Fiscal Deficit/GDP (pct)	16.6	14.8	9.0
Gold and Foreign Exchange.			
Reserves (end of period)	8.8	10.6	12.5
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Estimates based on available monthly data in October 2000.
[2] GDP at current prices.
[3] GDP at factor costs.
[4] Merchandise trade; includes re-exports.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2000 figures are estimates based on data available through August.

Sources: Ministry of Planning, Central Bank, Ministry of Economy and Commerce.

1. General Policy Framework

The United Arab Emirates (UAE) is a federation of seven emirates. The individual emirates retain considerable power over legal and economic matters, most significantly over ownership and disposition of oil resources. Each emirate has its own Customs Service, as well as its own Civil Aviation Authority. The federal budget is largely derived from transfers from the individual emirates. Abu Dhabi and Dubai, the most prosperous emirates, contribute the largest shares.

Oil production and revenues from the sale of oil constitute the largest single component of GDP, accounting in 1999 for 25.6 percent of GDP and equaling roughly 39 percent of export and 88 percent of government revenue. Rising or declining oil prices have a direct effect on GDP statistics and an indirect impact on government spending but may, nevertheless, be less obvious in terms of overall economic activity. GDP rose by 10 percent in 1999, largely owing to higher oil prices. The great majority of the UAE's oil export income comes from Abu Dhabi Emirate, though Dubai and Sharjah also produce and export a modest amount of oil and gas products. The scarcity of oil and gas reserves in the UAE's northern emirates has led to continued and successful attempts at economic diversification. The oil sector's increased share of GDP in 1999 resulted from the steady increase in oil revenues; data over time, however, indicates that the UAE has made significant progress in diversifying its economy away from oil. While the non-oil sector's share of GDP in 1999 fell from 79.2 percent to 74.4 percent, it nonetheless grew a respectable 3.3 percent in real terms. Important sectors under development include tourism, manufacturing, air travel and cargo services.

Government fiscal policies aim to distribute oil wealth to UAE nationals by a variety of means. Support from the wealthier emirates of Abu Dhabi and Dubai to less wealthy emirates is provided through the federal budget, largely funded by Abu

Dhabi and Dubai, and by direct grants from the governments of Abu Dhabi and Dubai.

Federal commercial laws promote national ownership of business throughout the country. Foreign businesses, except those seeking to sell to the UAE Armed Forces, must have a UAE national sponsor. Agency and distributorship laws require that a business engaged in importing and distributing a foreign-made product must be owned 100 percent by a UAE national. Other businesses must be at least 51 percent owned by nationals. Companies located within the UAE's nine free zones are exempted from agency/distributorship, sponsorship, and national ownership requirements. However, if they lack 51 percent national ownership, they are treated as foreign firms and subjected to these requirements if they market products in the UAE.

The central bank seeks to maintain the dirham/dollar exchange rate, which has not changed since 1980, and to keep interest rates close to those in the United States. Given these goals, the bank does not have the scope to engage in independent monetary policy. Trends in domestic liquidity continue to be primarily influenced by residents' demand for dirhams relative to foreign exchange. Banks convert dirham deposits to foreign assets and back again in search of higher rates of return and in response to fluctuations in lending opportunities in the domestic market. To a limited extent, domestic liquidity can be influenced by the central bank through its sale and purchase of foreign exchange, use of its swap facility, and transactions in its certificates of deposit.

In recent years the UAE has run budget deficits. In 1994 the UAE budget deficit as a percentage of GDP was 7.9 percent; in 1998 that figure grew to 16.6 percent, largely attributable to a 34 percent drop in oil revenues that year. By 1999, however, the deficit had narrowed slightly to 14.8 percent. Assuming current policies remain unchanged, fiscal deficits will persist. Deficits are financed by domestic borrowing, principally by overdrafts from banks in which government entities have an ownership share, and by liquidation of or interest from overseas assets.

2. Exchange Rate Policies

There are no restrictions on the import or export of either the dirham or foreign currencies by foreigners or UAE nationals, with the exception of Israeli currency and the currencies of those countries subject to United Nations sanctions. Since November 1980, the dirham, though formally pegged to the IMF's Special Drawing Rights (SDR) at the rate of 4.76190 dirhams per SDR, with a margin of fluctuation set initially at 2.25 percent and widened in August 1987 to 7.25 percent, has been kept in a fixed relationship with the dollar. The exchange rate is 3.67 dirhams per 1 dollar.

3. Structural Policies

Foreign workers make up approximately 90 percent of the UAE labor force; in some areas of the private sector, 99 percent of workers are non-UAE nationals. In an effort to stem the problem of illegal immigration and employment, better regulate the labor market and improve its efficiency of administration, a new Labor Law came into effect on October 1, 1996 that dramatically increased the severity of penalties applicable to immigration offenses. As a result of the new immigration rules, nearly 10 percent of the UAE's population (roughly 20 percent of its work force) left the country between the beginning of August and the end of October 1996, although most returned in subsequent months once their immigration status was clarified. Employment of UAE citizens, known as "Emiratization," is a stated national objective. In addition to persuasion and encouragement, the UAE government has begun to employ legislation as a tool for promoting job opportunities for UAE nationals. Beginning in January 1999, employment of UAE nationals in the banking sector must increase by 4 percent per year, with UAE nationals required to comprise 40 percent of the total banking sector work force in 2009. Additional measures, such as a ban on unskilled labor from certain countries, are also being employed in an effort to manage the labor force.

There is no income tax in the UAE. Foreign banks pay a 20 percent tax on their profits. Foreign oil companies with equity in concessions pay taxes and royalties on their proceeds. There are no consumption taxes, and the highest customs duty is four percent. More than 75 percent of imports still enter duty free. Gulf Cooperation Council (GCC) states have agreed formally to move towards unified customs tariffs within the next five years. The UAE, with its dependence on trade and its commitment to the free flow of goods, continues to favor lower rates than its GCC neighbors and, under the agreed customs union, would actually have to raise tariffs on some items.

Prices for most items are largely determined by market forces. Exceptions include utilities, educational services, medical care and agricultural products, which are subsidized for UAE nationals.

A passport and visa are required for entry into the UAE. Multiple entry visas for business or tourism and valid for up to ten years are available to U.S. passport holders from UAE embassies. Sponsors are not required, but applicants may be asked to provide an invitational letter to confirm the purpose of travel. These visas do not permit employment in the UAE. Visa applicants are now required to pay a 170 dirham consular services fee when they apply.

4. Debt Management Policies

The UAE Federal Government has no official or commercial foreign debt. Some individual emirates have foreign commercial debts, and there is private external debt. There are no reliable statistics on either, but the amounts involved are not large. The foreign assets of the Abu Dhabi and Dubai governments and their official agencies are believed to be significantly larger than the reserves of the central bank. It is conservatively estimated that assets of the Abu Dhabi Investment Authority (ADIA) total more than $125 billion.

5. Significant Barriers to U.S. Exports

The UAE maintains non-tariff barriers to trade and investment in the form of restrictive agency, sponsorship, and distributorship requirements. In order to do business in the UAE outside of one of the free zones, a foreign business in most cases must have a UAE national sponsor, agent or distributor. Once chosen, sponsors, agents, or distributors have exclusive rights. They cannot be replaced without their agreement. Government tendering is not conducted according to generally accepted international standards. Retendering is the norm. To bid on federal projects, a supplier or contractor must be either a UAE national or a company in which at least 51 percent of the share capital is owned by UAE nationals. Federal tenders are required to be accompanied by a bid bond in the form of an unconditional bank guarantee for five percent of the value of the bid.

Except for companies located in one of the free zones, at least 51 percent of a business establishment must be owned by a UAE national. A business engaged in importing and distributing a product must be either a 100 percent UAE owned agency/distributorship or a 51 percent UAE/49 percent foreign Limited Liability Company (LLC). Subsidies for manufacturing firms are only available to those with at least 51 percent local ownership.

The laws and regulations governing foreign investment in the UAE are evolving. There is no national treatment for investors in the UAE. Non-GCC nationals cannot own land; only one stock is currently open to foreign investors and is capped at 20 percent total foreign ownership, although limited participation by foreigners in a few mutual funds is permitted. There have been no significant investment disputes over the past few years involving U.S. or other foreign investors. Claims resolution is generally not a problem, because foreign companies tend not to press claims, believing that to do so might jeopardize future business activity in the UAE.

6. Export Subsidies Policies

The government does not employ subsidies to provide direct or indirect support for exports.

7. Protection of U.S. Intellectual Property

The UAE is a member of the World Trade Organization (WTO), a contracting party to the World Intellectual Property Organization (WIPO), and has signed the Paris Convention for the Protection of Industrial Property (patent, trademark and related industrial property). In April 2000 the UAE was removed from USTR's "Special 301" Watch List following a visit to the UAE by a PHRMA representative and subsequent assurances from the UAE government that unlicensed copies of patent-protected medicines will no longer be registered. Some concerns remain, however, over the UAE's interpretation of how that agreement applies to U.S. patent-protected medicines which were pending registration at the time the agreement went into effect.

In 1992 the UAE passed three laws pertaining to intellectual property: a Copyright Law, a Trademark Law, and a Patent Law. Enforcement efforts did not begin in earnest until 1994. As a result of these efforts, the UAE is largely clean of pirated sound recordings and films. The government has also undertaken enforcement actions against local companies selling pirated computer software. Efforts to combat computer software and video piracy in the UAE have been successful; the UAE is recognized as a regional leader in fighting computer software and video piracy.

UAE patent law provides process, not product, patent protection for pharmaceutical products. The Ministry of Finance and Industry is currently in the process of amending the Patent Law; the Minister of State for Finance and Industry publicly announced in February 2000 that an amended law would be in place by the end of 2000. The Ministry of Information is currently amending the Copyright Law to bring it up to international standards.

According to the International Intellectual Property Alliance, estimated 1998 losses to U.S. copyright-based industries were $22.4 million in the UAE, a 19 percent decrease from the prior year.

8. Worker Rights

a. *The Right of Association:* There are no unions and no strikes. The law does not grant workers the right to organize unions or to strike. Foreign workers, who make up the bulk of the work force, risk deportation if they attempt to organize unions or to strike. Since July 1995, the UAE has been suspended from U.S. Overseas Private Investment Corporation programs because of the government's lack of compliance with internationally recognized worker rights standards.

b. *The Right to Organize and Bargain Collectively:* The law does not grant workers the right to engage in collective bargaining, which is not practiced. Workers in the industrial and service sectors are normally employed under contracts that are subject to review by the Ministry of Labor and Social Affairs. The Ministry of Interior Naturalization and Immigration Administration is responsible for reviewing the contracts of domestic employees as part of residency permit processing. The purpose of the review is to ensure that the pay will satisfy the employee's basic needs and secure a means of living. For the resolution of work-related disputes, workers must rely on conciliation committees organized by the Ministry of Labor and Social Affairs or on special labor courts. Labor laws do not cover government employees, domestic servants, and agricultural workers. The latter two groups face considerable difficulty in obtaining assistance to resolve disputes with employers. While any worker may seek redress through the courts, this puts a heavy financial burden on those in lower income brackets. In Dubai's Jebel Ali Free Zone, the same labor laws apply as in the rest of the country.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is illegal and not practiced. However, some unscrupulous employment agents bring foreign workers to the UAE under conditions approaching indenture. The government prohibits forced and bonded child labor and enforces this prohibition effectively. In 1996 the UAE ratified the International Labor Organization's 1957 Abolition of Forced Labor Convention.

d. *Minimum Age for Employment of Children:* Labor regulations prohibit employment of persons under age 15 and have special provisions for employing those aged 15 to 18. The Department of Labor enforces the regulations. Other regulations permit employers to engage only adult foreign workers. In 1996 the UAE ratified the International Labor Organization's 1973 Minimum Age Convention. In 1993 the government prohibited the employment of children under the age of 15 as camel jockeys and of jockeys who do not weigh more than 99 pounds. The Camel Racing Association is responsible for enforcing these rules. Children under the age of 15 working as camel jockeys have still been observed. Newspaper articles have appeared in 2000 detailing instances of young children being smuggled into the UAE to work as camel jockeys. The government prohibits forced and bonded child labor and enforces this prohibition effectively (see section "c" above). The government does not issue visas for foreign workers under the age of 16 years. Education is compulsory through the intermediate stage, approximately the age of 13 or 14 years.

e. *Acceptable Conditions of Work:* There is no legislated or administrative minimum wage. Supply and demand determine compensation. However, according to the Ministry of Labor and Social Affairs, there is an unofficial, unwritten minimum wage rate that would afford a worker and family a minimal standard of living. As noted above, the Ministry of Labor and Social Affairs reviews labor contracts and does not approve any contract that stipulates a clearly unacceptable wage.

The standard workday and workweek are eight hours a day, six days per week, but these standards are not strictly enforced. Certain types of workers, notably domestic servants, may be obliged to work longer than the mandated standard hours. The law also provides for a minimum of 24 days per year of annual leave plus 10 national and religious holidays. In addition, manual workers are not required to do outdoor work when the temperature exceeds 122 degrees Fahrenheit. Most foreign workers receive either employer-provided housing or housing allowances, medical care, and homeward passage from their employers. Most foreign workers do not earn the minimum salary of $1,090 per month required to obtain residency permits for their families. Employers have the option to petition for a six-month ban from the work force against any foreign employee who leaves his job without fulfilling the terms of his contract.

The Ministry of Health, the Ministry of Labor and Social Affairs, municipalities and civil defense units enforce health and safety standards. The government requires every large industrial concern to employ a certified occupational safety officer. An injured worker is entitled to fair compensation. Health standards are not uniformly observed in the housing camps provided for foreign workers. Workers' jobs are not protected if they remove themselves from what they consider to be unsafe working conditions. However, the Ministry of Labor and Social Affairs may require employers to reinstate workers dismissed for not performing unsafe work. All workers have the right to lodge grievances with Ministry officials, who make an effort to investigate all complaints. However, the Ministry is understaffed and underbudgeted; complaints and compensation claims are backlogged. The government announced in 2000 that it intends to establish a new court system to speed up labor cases.

Rulings on complaints may be appealed within the Ministry and ultimately to the courts. However, many workers choose not to protest for fear of reprisals or deportation. The press periodically carries reports of abuses suffered by domestic servants, particularly women, at the hands of some employers. Allegations have included excessive work hours, nonpayment of wages, and verbal and physical abuse.

f. *Rights in Sectors with U.S. Investments:* There is no difference in the application of the five worker rights discussed above between the sectors of the UAE economy in which U.S. capital is invested and other sectors of the economy. If anything, sectors containing significant U.S. investment, such as the petroleum sector, tend to have better working conditions, including higher safety standards, better pay, and better access to medical care.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		221
Total Manufacturing		90
Food and Kindred Products	0	
Chemicals and Allied Products	([1])	
Primary and Fabricated Metals	13	
Industrial Machinery and Equipment	4	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	([1])	
Wholesale Trade		107
Banking		([1])
Finance/Insurance/Real Estate		([1])
Services		65
Other Industries		–36
TOTAL ALL INDUSTRIES		543

([1]) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.